

UNITED STATES-MEXICAN DIPLOMATIC RELATIONS

1933-1941

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## INTRODUCTION

The purpose of this study is to present a narrative and analysis of United States-Mexican relations from 1933 to 1941 in connection with the Good Neighbor policy of the United States. The writer will attempt to show that, in adherence to the Good Neighbor policy, the United States not only refused to intervene in Mexico during the period under consideration but strove diligently to be a good neighbor in its dealings with the republic to the south. Situations did, however, arise which at other times might have given rise to United States intervention.

The data for this study have come from public documents, books, articles, and speeches. While considerable material is available on the subject, this work is significant because it gives a short yet comprehensive account of the salient issues in the diplomatic relations between the two countries during the period when the Good Neighbor policy was put to a severe test by Mexico.

This work is divided into four chapters. As a means of providing the reader with perspective and a frame of reference, the first chapter reviews briefly the Mexican Revolution and the Good Neighbor policy because the major issues in the diplomatic relations between the two nations grew out of the Revolution. The adherence to the Good Neighbor policy by the United States greatly aided in settling these issues. The second chapter discusses the claims of American citizens against the Mexican government which arose after 1868, the settlement of which Josephus Daniels, the United States Ambassador

to Mexico, referred to as the "first fruit" of the Good Neighbor policy. The last two chapters give an account of the two aspects of the Revolution that chiefly conflicted with American property rights, namely, the expropriation of American agrarian and oil properties. While presenting the material of this study in four separate chapters, the writer has also attempted to treat each issue in a logical and chronological order.

## CHAPTER I

### REVIEW OF THE MEXICAN REVOLUTION AND THE GOOD NEIGHBOR POLICY

The Mexican Revolution of 1910 was launched against a system which had been largely constructed by Porfirio Díaz (1877-1911) and his supporters. During his regime, Díaz smothered all attempted revolutionary strife even when it was done at the price of individual liberty and he supported a socio-economic situation for the masses which was closely akin to serfdom. In an effort to advance the material progress of Mexico, the dictator invited foreign capital to exploit its natural resources and to organize its economic life. These invitations were made with alien business men who received broad and frequently lavish concessions. These concessions to foreigners aroused a smoldering popular hostility which Díaz for many years suppressed.<sup>1</sup>

While the system created by Díaz produced order and outward evidence of prosperity, the masses were landless and poverty stricken.<sup>2</sup> The profits from the foreign concessions paid the fees of a small group of Mexican lawyers, bureaucrats, and politicians who lived in Mexico City; provided the salary of young foreign engineers; enlarged the estates of foreign residents; or flowed abroad as dividends to stockholders. There was almost no progress

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<sup>1</sup>Samuel F. Bemis, A Diplomatic History of the United States (New York, 1950), pp. 540-41. Hereafter cited as A Diplomatic History.

<sup>2</sup>Thomas A. Bailey, A Diplomatic History of the American People (New York, 1950), p. 602.

in education, public welfare, and social improvement.<sup>1</sup>

Beginning as a revolt against the dictatorship of Díaz, the Mexican Revolution of 1910 had as its immediate objective the restoration of the constitutional liberties which had been ruthlessly suppressed by Díaz.<sup>2</sup> In the early days of the movement, the intellectuals and the politicians were mainly concerned over the issues of good government, honesty in politics, and justice before the courts. The underlying movement of the rural folk gradually submerged all else and subordinated all other issues to the basic one of land for the people.<sup>3</sup> Consequently by 1915, the aims of the Revolution had shifted to an effort to improve the lot of the peasants and workers in Mexico. A prerequisite for such improvement was the Mexican recovery of the control of the important elements of Mexico's natural resources which had passed into the possession of foreigners. Thus the Revolution took on a "Mexico for the Mexicans" coloration.<sup>4</sup>

The Revolution began under the leadership of Francisco I. Madero who was the presidential candidate of the Anti-Re-electionist Party in the Mexican general elections of 1910. A few days before elections, Madero was imprisoned on charges of inciting the nation to armed revolt. When Díaz later permitted Madero to "escape" from his confinement in San Luis Potosí and to seek exile in the United States, the election results were released. According to the official figure, Díaz was victorious over his opponents and plans

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<sup>1</sup>Bemis, op. cit., pp. 541-42.

<sup>2</sup>Ibid., p. 542.

<sup>3</sup>Frank Tannenbaum, Mexico: The Struggle for Peace and Bread (New York, 1950), p. 52.

<sup>4</sup>Julius W. Pratt, A History of United States Foreign Policy (New York, 1955), pp. 616-17.

were laid to inaugurate him in November.<sup>1</sup>

After he entered Texas, Madero issued a manifesto known as the "Plan of Luis Potosí" which touched off the Revolution. In this manifesto, Madero called for the nullification of the July elections as fraudulent and a denial of the people's will. He called for the Mexican people to revolt against Díaz and set November 20, 1910 (later the official starting date of the Revolution) as the day for a mass uprising. He named himself provisional president and promised that new and honest elections would follow.<sup>2</sup>

Tiny bands of devoted Maderistas rallied to the "Plan of San Luis Potosí." Premature outbreaks occurred on November 18, 1910 and sporadic local fighting continued thereafter at widely separate points in the republic. Finally, on May 25, 1911, Díaz was forced to resign. He was exiled to Europe where he died in 1915.<sup>3</sup>

Madero took office on November 6, 1911. After being installed in power, he allowed his political foes complete use of the new liberties.<sup>4</sup> In February, 1913, President Madero was overthrown by a coup d'état led by Felix Díaz, a nephew of the old dictator, and Victoriano Huerta,<sup>5</sup> and assassinated a short time later along with his Vice-President, José María Pino Suárez.<sup>6</sup>

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<sup>1</sup>Howard F. Cline, The United States and Mexico (Cambridge, 1953), pp. 120-21.

<sup>2</sup>Ibid.

<sup>3</sup>Ibid.

<sup>4</sup>Tannenbaum, op. cit., p. 56.

<sup>5</sup>George J. Rausch, Jr., "The Exile and Death of Victoriano Huerta," Hispanic American Historical Review, XLII (May, 1962), 133.

<sup>6</sup>Tannenbaum, op. cit., p. 56.

The reactionary regime of Victoriano Huerta came to power in February, 1913 and maintained itself to July, 1914. His regime represented a counter-revolution and it appeared likely that his success would restore a dictatorship, and presumably law and order.<sup>1</sup> The Huerta government, however, was denied recognition by the United States under President Woodrow Wilson because Wilson was convinced that Huerta was personally responsible for the murder of Madero. While no proof of his responsibility has appeared, his guilt was widely accepted and several groups arose in armed opposition to him. A deadly but indecisive period of civil war followed between the troops of Huerta and those of Venustiano Carranza, Francisco Villa, and Emiliano Zapata. By the middle of July, 1914, Huerta's position had become impossible. He resigned his office and fled the country in July, 1914.<sup>2</sup>

Following Huerta's downfall, the government of Mexico came under the control of Carranza but the elimination of Huerta did not bring peace to Mexico. Rival revolutionary armies ravaged the country. The most outstanding armies were those under Zapata in the southwest and Villa in the north. The United States recognized Carranza's authority on October 19, 1915. The Mexican Congress, acting as an electoral college, finally elected Carranza as President on March 11, 1917. It also adopted a new constitution. The principal object of the document was to re-establish Mexican mastery over the land and natural resources which had been largely alienated to foreigners under the regime of Díaz. The United States recognized the new government de jure on April 17, 1917.<sup>3</sup>

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<sup>1</sup>Samuel F. Bemis, A Short History of American Foreign Policy and Diplomacy (New York, 1959), p. 325. Hereafter cited as A Short History.

<sup>2</sup>Rausch, op. cit., p. 133.

<sup>3</sup>Bemis, A Short History, pp. 331-34.



Since Carranza proved more ready to proclaim the revolutionary reforms than to execute them and because he was ruthless and corrupt, his government was overthrown and he was murdered in 1920 in a new uprising led by General Alvaro Obregón who became president of the Republic.<sup>1</sup>

A regime of orderly government began with Obregón in 1920 and ended the violent Revolution.<sup>2</sup> From 1920 through 1933, the chief problems in Mexico were reconstruction and rehabilitation especially of the political machinery. The old apparatus that had served Díaz not only was discredited, but had nearly been blotted out in the decade of civil war. From 1933 through 1940, the Revolution went through a renaissance and a resurgence which shook structures of politics, economics, and social life to their very foundations.<sup>3</sup>

The decade of revolution produced issues that were to affect diplomatic relations between the United States and Mexico. These issues grew out of the following: (1) claims for damages to American citizens suffered since the creation of the last mixed commission of 1868 which settled routine claims under international law and treaty provisions, (2) claims for damages to American citizens and their property by reason of the associated violence or arbitrary decrees issued during the Revolution, (3) claims for damages for the expropriation of Mexican lands owned by United States citizens in good legal title, and (4) claims for damages by American citizens by virtue of the Mexican nationalization of the subsoil deposits on United States

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<sup>1</sup>Ibid., p. 326.

<sup>2</sup>Ibid.

<sup>3</sup>Cline, op. cit., pp. 56-57.

owned properties according to the provisions of Article 27 of the new Mexican Constitution of 1917.<sup>1</sup>

The United States Government's Good Neighbor policy, as developed by the Roosevelt administration, played a great part in bringing about mutually satisfying solutions to these issues. Because of the significant role it played in United States-Mexican relations, a brief review of some aspects of the Good Neighbor policy is necessary.

Nonintervention in the domestic affairs of the Latin American countries is the first and most essential principle of the Good Neighbor policy of the Roosevelt administration. The United States Government had begun to develop this principle before the advent of the Roosevelt administration. All that remained for the chief executive was to give nonintervention the status of a systematic policy and to implement its ideas.<sup>2</sup> The understanding of the Good Neighbor policy as it emerged during the presidency of Franklin D. Roosevelt can be clarified by a brief review of United States relations with Latin America.

When first announced, over a century ago, the Monroe Doctrine was a notice to Europe to keep hands off the independent states of the Western Hemisphere. At that time, there was no thought that the United States itself would intervene in the affairs of Latin America yet this particular development or extension of the Monroe Doctrine was brought about by President Theodore Roosevelt at the beginning of the twentieth century. It was the outgrowth of disturbed conditions in Latin American countries which led

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<sup>1</sup>Bemis, A Short History, pp. 334-35.

<sup>2</sup>Norman A. Graebner (ed.), An Uncertain Tradition: American Secretaries of State in the Twentieth Century (New York, 1961), p. 198.

to threats of European intervention for the maintenance of order and the collection of debts. The United States was faced with three possible courses of action if Latin American countries allowed their affairs to fall into such conditions of chaos and disorder that they apparently could not be straightened out except through the intervention of some other power. In the first place, the United States Government could stand idly by and permit European nations to intervene. But this did not seem to be a correct attitude for the United States to assume because it would clearly be a violation of the Monroe Doctrine. Secondly, it could maintain the position of not allowing Europeans to intervene and of not intervening itself. This course seemed to hold out no hope for an improvement of conditions. The third possible course was for the United States itself to intervene. This was the course which President Theodore Roosevelt adopted.<sup>1</sup> With respect to intervention, Roosevelt declared in his annual message to Congress in 1904:

If a nation shows that it knows how to act with reasonable efficiency and decency in social and political matters, if it keeps order and pays its obligations, it need fear no interference from the United States. Chronic wrongdoing, or an impotence which results in a general loosening of the ties of civilized society, may in America, as elsewhere, ultimately require intervention by some civilized nation, and in the Western Hemisphere the adherence of the United States to the Monroe Doctrine may force the United States, however reluctantly, in flagrant cases of such wrongdoing or impotence, to the exercise of an international police power.<sup>2</sup>

Thus he explained what was later called the Roosevelt Corollary to the Monroe Doctrine. In its essence this policy turned out to be one of imperialism

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<sup>1</sup>John M. Mathews, "Roosevelt's Latin-American Policy," American Political Science Review, XXIX (October, 1935), 806-07.

<sup>2</sup>Willis F. Johnson (ed.), Theodore Roosevelt--Addresses and Papers (New York, 1910), p. 231.

or of what in this country is sometimes called the policy of the Big Stick.<sup>1</sup>

In accord with this corollary of the Monroe Doctrine, mounting debts, long unpaid, finally led the United States into a series of interventions in the republics to the south. A convention was adopted with the Dominican Republic which established a customs receivership there under an American fiscal officer. This officer was named by the President of the United States<sup>2</sup> and acted under the protection of the United States navy.<sup>3</sup> Conditions of anarchy in the Republic resulted in military occupation up to 1924. This kind of positive implementation of the Monroe Doctrine was continued in force until the middle of the Hoover administration. The Taft administration, for example, negotiated a treaty with Nicaragua similar to that with the Dominican Republic and, when obstacles to its execution arose, landed marines who stayed there with a brief interruption until 1933. The Wilson administration, in its turn, intervened in Haiti in 1915 and there the marines remained until 1934. None of these interventions was accomplished without resistance.<sup>4</sup> The Caribbean region came to be regarded as an area for exploitation by American business interests assisted by the government of the United States under the principle of "dollar diplomacy." As late as 1928, at the Sixth Pan American Conference at Havana, the United

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<sup>1</sup>Mathews, op. cit., p. 807.

<sup>2</sup>Samuel F. Bemis (ed.), The American Secretaries of State and Their Diplomacy (New York, 1958), X, 118-19.

<sup>3</sup>Mathews, op. cit., p. 807.

<sup>4</sup>Dexter Perkins, The United States and Latin America (Baton Rouge, 1961), p. 64.

insisted on maintaining the right of intervention.<sup>1</sup>

President Hoover appreciated the significance of the good will and understanding of our American neighbors for the security of the United States. He also did not fail to see the damage which had resulted from the policies carried on by his predecessors. Prior to his inauguration, therefore, he undertook a good-will tour around Central and South America. His intentions were admirable and under different conditions would have resulted in much good but he failed to succeed in his purpose.<sup>2</sup>

About midway the Hoover administration, a series of incidents revealed that there was a change of policy on the part of the United States. First, when a revolution occurred in Panama in 1931, the United States did not intervene in spite of our right to do so under the treaty of 1903. Second, when El Salvador defaulted on her bonds in 1932, the State Department made no move to assist the bankers by establishing a customs receivership. Third, in Nicaragua, the number of Marines was gradually reduced and finally, early in 1933, those remaining were withdrawn altogether. Fourth, during the Hoover administration, J. Rueben Clark, Undersecretary of State, prepared a memorandum on the Monroe Doctrine--which memorandum declared the Roosevelt corollary to the Monroe Doctrine unwarranted and characterized the doctrine as a policy of the United States toward Europe and not toward Latin America. In spite of the various steps taken by the Hoover administration showing a more conciliatory spirit toward Latin America he failed to create an impression of the United States as a good neighbor.<sup>3</sup> In his book,

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<sup>1</sup>Mathews, op. cit., p. 807.

<sup>2</sup>Sumner Welles, The Time for Decision (New York, 1944), pp. 189-90.

<sup>3</sup>Mathews, op. cit., pp. 807-08.

Time for Decision, Sumner Welles stated the following:

It is an obvious fact that after four years of the Hoover administration there was no country in the Western Hemisphere where the United States was, in even the most superficial sense of the word, regarded as a good neighbor.<sup>1</sup>

While Hoover was neither unaware of nor indifferent to the issue, President Franklin D. Roosevelt recognized more keenly the importance of a good will policy as a means of hemispheric solidarity.<sup>2</sup> During the months between his nomination and inauguration, Roosevelt made it a practice to invite a group of advisers to visit him at Albany or Hyde Park in order to review with him questions of domestic and foreign policy. As an outgrowth of one of these meetings, during which questions of hemispheric policy was discussed, Sumner Welles sent the President a memorandum on inter-American relations in which he stated:

The creation and maintenance of the most cordial and intimate relationship between the United States and the other republics of the American Continent must be regarded as a keystone of our foreign policy. The erroneous interpretations given to the Monroe Doctrine over a period of many decades have constituted a constant cause for apprehension and for misrepresentation of the true purpose of the government of the United States.<sup>3</sup>

The memorandum represents the thinking of one of Roosevelt's most trusted advisers in the field of inter-American relations in the days immediately preceding the announcement of the Good Neighbor policy.

The Good Neighbor policy, under the guidance and direction of President

<sup>1</sup>Welles, op. cit., pp. 190-91.

<sup>2</sup>Louis M. Sears, "The Roosevelt Foreign Policy, 1937-1940," Journal of Modern History, XV (March, 1943), 52-53.

<sup>3</sup>Charles C. Griffin (ed.), "Welles to Roosevelt: Memorandum on Inter-American Relations, 1933," Hispanic American Historical Review, XXXIV (May, 1954), 190-91.

Roosevelt, Secretary of State Cordell Hull and Sumner Welles, rapidly developed to include the doctrine of nonintervention. This achievement evolved through speeches of the United States chief executive, through successive acts of policy, and in inter-American conferences.<sup>1</sup> The most important reasons for a change in United States policy toward Latin America include (1) the lack of danger of European intervention in Latin America, (2) the gradually increasing stability of the Latin American countries and their increasing ability on the whole to keep their houses in order, (3) the effect of the economic depression in the United States and the need for this country to cultivate the good will of Latin America as a stimulant to international trade, and (4) the greater realization on the part of the United States of the right of Latin Americans to be allowed to work out their own destiny without unnecessary interference by the United States.<sup>2</sup>

President Roosevelt carried out the policy of good neighborliness more fully than any of his predecessors and, in his official utterances, made it more clear cut and explicit. In his First Inaugural Address on March 4, 1933, he stated:

In the field of world policy, I would dedicate this nation to the policy of the good neighbor--the neighbor who resolutely respects himself and, because he does so, respects the rights of others--the neighbor who respects his obligations and respects the sanctity of his agreements in and with a world of neighbors.<sup>3</sup>

In an address before the special session of the Governing Board of

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<sup>1</sup>Samuel F. Bemis, The Latin American Policy of the United States (New York, 1943), p. 256. Hereafter cited as Latin American Policy.

<sup>2</sup>Mathews, op. cit., p. 819.

<sup>3</sup>Samuel I. Rosenman (ed.), The Public Papers and Addresses of Franklin D. Roosevelt (New York, 1938), II, 14.

the Pan American Union on the occasion of the celebration of Pan-American Day in Washington on April 12, 1933, Roosevelt enlarged upon the statement made in his First Inaugural Address:

The essential qualities of a true Pan Americanism must be the same as those which constitute a good neighbor, namely, mutual understanding, and, through such understanding, a sympathetic appreciation of the other's point of view. It is only in this manner that we can hope to build a system of which confidence, friendship and good-will are the cornerstones.<sup>1</sup>

President Roosevelt, in his address before the Woodrow Wilson Foundation in Washington, on December 28, 1933 enlarged still further upon the Good Neighbor policy when he stated that

the definite policy of the United States from now on is one opposed to armed intervention.

The maintenance of constitutional government in other nations is not a sacred obligation devolving upon the United States alone. The maintenance of law and of the orderly processes of government in this hemisphere is the concern of each individual Nation within its own borders first of all. It is only if and when the failure of orderly processes affect the other Nations of the Continent that it becomes their concern; and the point to stress is that in such event it becomes the joint concern of a whole continent in which we are all neighbors.<sup>2</sup>

This statement represents a fundamental change in the application of the Monroe Doctrine as it had been understood since the time of President Theodore Roosevelt. It suggested a continentalized interpretation of the Doctrine for the first time in an official presidential statement.<sup>3</sup>

Latin American fears of intervention by the United States were not allayed by the friendly speeches of President Hoover and Roosevelt. For some time after Hoover's good-will tour in 1928, Latin Americans demanded

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<sup>1</sup>Ibid., p. 130.

<sup>2</sup>Ibid., p. 545.

<sup>3</sup>Mathews, op. cit., p. 810.



deeds in addition to words as evidence of the good faith of the United States. They insisted that the policy of nonintervention be elevated to the level of a legally binding pledge of nonintervention. The Latin-American demand had been successfully resisted by Charles E. Hughes at the Sixth International Conference of American States in 1928.<sup>1</sup> The refusal of the United States to renounce the right to intervene in Latin America had embittered the republics to the south to a degree little realized by the average American citizen when Roosevelt became President in 1933. The attitude of Latin America toward intervention was reflected by Luis Quintanilla, Mexican diplomat, when he said:

In the previous fifty years [before 1933], the United States had intervened some sixty times in the affairs and territories of its Latin American neighbors--especially in the Caribbean....How can one speak of inter-American solidarity, Pan Americanism, or Good Neighborliness when the stumbling block in the path of good relations was nothing less than the most powerful republic of the Hemisphere? The situation could change only if and when the United States decided to abandon once and for all its imperialistic interventionism.<sup>2</sup>

The Latin American fear of United States intervention was allayed somewhat in 1933 at the Seventh International Conference of American States held at Montevideo. During this conference the policy of nonintervention, the capstone of the Good Neighbor policy, was accepted by the United States with reservations. The nonintervention policy became a part of the Conferences Convention on the Rights and Duties of States.<sup>3</sup> United States Secretary of State Hull's reservation meant that while the United States

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<sup>1</sup>Bryce Wood, The Making of the Good Neighbor Policy (New York, 1961), p. 118.

<sup>2</sup>Luis Quintanilla, A Latin American Speaks (New York, 1943), pp. 156-57.

<sup>3</sup>Edward O. Guerrant, Roosevelt's Good Neighbor Policy (Albuquerque, 1950), p. 2.

renounced the use of force in regard to domestic political affairs in Latin America it was not yet ready in a legally binding way to renounce the use of force for the protection of the lives or property of United States citizens in Latin America.<sup>1</sup> The United States could have taken no one step that would have more completely allayed the suspicions and antagonism of its American neighbors. Sumner Welles believed that "it was the first great step toward the construction of the new inter-American relationship."<sup>2</sup>

The months following the Montevideo Conference were a critical period. Any refusal of the United States to observe the letter and spirit of the Convention on Rights and Duties of States would have destroyed all the progress thus far made in the development of the Good Neighbor Policy. Cuba became the testing ground of the good neighbor's sincerity by demanding the abrogation of the Cuban-American Treaty of 1903. This treaty embodied the Platt Amendment that gave the United States a legal right to intervene in the internal and external affairs of the republic. Hull, on May 29, 1934, signed a treaty formally abrogating the Platt Amendment and ending all special rights in Cuba except the right to maintain a naval base at Guantanamo.<sup>3</sup>

After the withdrawal of the United States from Cuba, there still remained three Caribbean countries--Haiti, the Dominican Republic, and Panama--in which the United States might legally intervene to protect property and maintain order. By special agreement with the Haitian Government, American marines were withdrawn from that country on August 15, 1934. Moreover,

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<sup>1</sup>Wood, op. cit., p. 119.

<sup>2</sup>Welles, op. cit., p. 200.

<sup>3</sup>Arthur S. Link, An American Epoch (New York, 1955), p. 457.

the United States allowed the Haitian-American Treaty of 1916, which had made Haiti a semi-protectorate of the United States, to expire in 1936. In 1936, Panama and the United States concluded a treaty that ended the American right to intervene in Panamanian affairs granted in the Panamanian-American Treaty of 1903. The Dominican-American Treaty of 1924 provided for the continuation of an American receivership of the Dominican customs after the withdrawal of American troops. This treaty was abrogated by a new treaty between the two countries in 1940 and the receivership was ended in 1941.<sup>1</sup>

Despite United States withdrawals following the Montevideo Conference, the United States' reservation on intervention gave rise to a new Latin American campaign for complete renunciation of the right to intervene. This campaign culminated at the Buenos Aires Conference of 1936. The United States Government at this conference was fully prepared to accept without reservation or protest an even stronger nonintervention obligation.<sup>2</sup> It consequently signed an Additional Protocol Relative to Nonintervention which stated in Article I:

The High Contracting Parties declare inadmissible the intervention of any one of them, directly or indirectly, and for whatever reason, in the internal or external affairs of any other of the Parties.

The violation of the provisions of this Article shall give rise to mutual consultation, with the object of exchanging views and seeking methods of peaceful adjustment.<sup>3</sup>

The United States delegation made no reservation to this convention.

<sup>1</sup>Ibid., pp. 457-58.

<sup>2</sup>Wood, op. cit., p. 119.

<sup>3</sup>Report on the Delegation of the United States of America to the Inter-American Conference for the Maintenance of Peace Buenos Aires, Argentina, December 1-23, 1936, Depart. of State Conference Series, No. 33 (Washington, 1937), pp. 127-28.

Latin Americans were at last somewhat fully convinced that the Roosevelt administration had completely abandoned the principle of intervention.<sup>1</sup> Many difficulties had handicapped relations of these powers with the United States, but conditions by the mid-1930's were greatly improved. The problems with Mexico could thus be approached with some hope of solution.

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<sup>1</sup>Guerrant, op. cit., p. 11.

## CHAPTER II

### THE CLAIMS CONTROVERSY

President Franklin D. Roosevelt knew that the Good Neighbor Policy had to be adopted by the diplomatic service of the United States in order to become effective. He sought to send abroad men who shared his dreams of friendliness and who would personify the Good Neighbor doctrine in daily deeds as well as by official acts. Knowing of his faith in democracy through their close association for nearly eight years in the navy during the Wilson administration, Roosevelt asked Josephus Daniels to go to Mexico as his ambassador in the first days of his administration. Daniels shared Roosevelt's feelings about the Good Neighbor Policy for he felt that his main commission was "to show by acts that the Good Neighbor Policy would work." Daniels later repeated with pride that no other ambition interested him in the nearly nine years that he "walked with love among the hospitable people of Mexico."<sup>1</sup>

Shortly after being appointed and before leaving for Mexico, Daniels received a message from the Mexican Foreign Minister, José M. Puig Casauranc, stating that, upon his arrival in Mexico, it was the desire of the Mexican Government immediately to initiate formal conversations for a lump-sum settlement of the knotty claims controversy. Dr. Puig stressed that a

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<sup>1</sup>Josephus Daniels, Shirt-Sleeve Diplomat (Chapel Hill, 1947), pp. viii-ix.

prompt solution was "necessary to eliminate the constant tension which hindered the most perfect cooperation between the two countries."<sup>1</sup> Mexico was testing the Good Neighbor policy in action.

Almost everyone agreed that the claims issue had become an obstacle to close relations between the two countries and that it should be settled. The issue involved two general classes of claims. One was the so-called general claims which were made reciprocally by nationals of one country against the other for damages sustained during the period 1868 to 1910. These were routine claims generally handled under international law and treaty provisions. The other class was the special claims which originated in the revolutionary period from 1910 to 1920. The more prominent claims in this latter class included deaths, mutilations and other injuries to persons, damages to or confiscation of property, inadequate police protection, and denial of justice.<sup>2</sup>

Settling the problems raised questions of how justice could be done to both the American claimants and the impoverished Mexican Government. In an attempt to reach a basis for granting diplomatic recognition to the Mexican Government, Secretary of State Charles E. Hughes agreed to the Bucareli Conference of 1923, so called because the sessions were held at No. 85 Bucareli Street in Mexico City. Here representatives of both countries met and quietly explored their various differences. One immediate result of the Bucareli Conference was the United States decision to grant recognition to the Mexican Government under the presidency of Alvaro Obregón. Another result was the establishment of two claims commissions of mixed membership:

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<sup>1</sup>Ibid., p. 115.

<sup>2</sup>Bemis, A Diplomatic History, p. 555.

(1) the General Claims Commission which was to adjust general claims;  
(2) the Special Claims Commission which was to deal with special claims.  
Prior to 1932, the two commissions had made such little progress toward a settlement that the United States claimants and the State Department despaired of obtaining satisfaction under such a system.<sup>1</sup>

Daniels' predecessor, Ambassador J. Reuben Clark, initiated informal conversations looking toward an en bloc, or lump-sum, settlement similar to those negotiated by various European governments. These lump-sum agreements had scaled down the claims for European nationals from the original total of 382 million pesos to about 10 million pesos. While the average return for the six nations (Belgium, France, Germany, Great Britain, Italy, and Spain) involved was 2.65 per cent, the percentage of return varied from a high of 7.92 per cent for Belgium to a low of 2.46 per cent for Spain.<sup>2</sup>

President Roosevelt, Ambassador Daniels, and the State Department all agreed by 1933 that the United States should try to get a lump-sum settlement of the troublesome claims issue.<sup>3</sup> Daniels set out for Mexico in April of that year in the confident belief that, by doing away with the commissions, matters which had defied solution for scores of years could be promptly adjusted and that payment of a lump-sum was just around the corner.<sup>4</sup>

Understanding his instructions to mean that he was to negotiate a lump-sum settlement of the claims issue, Daniels arrived in Mexico City on

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<sup>1</sup>E. David Cronon, Josephus Daniels in Mexico (Madison, 1960), p. 77.

<sup>2</sup>Ibid.

<sup>3</sup>Ibid.

<sup>4</sup>Daniels, op. cit., p. 117.

April 15, 1933. Nine days passed before he presented his credentials on April 24th. Meanwhile, on April 22nd, the Mexican Minister for Foreign Affairs, Dr. Puig, delivered to Daniels a brief written memorandum covering three main topics: (1) the social aims of the Revolution; (2) the claims pending before the commissions, the friction connected with them, and their effect on cordial relations between the two countries; and (3) the advantage of an en bloc settlement.<sup>1</sup> It appeared that the Mexican Government and the United States were in basic agreement on a solution to the problem.

On April 29, Ambassador Daniels conferred with Dr. Puig. Daniels stated that he had read his very informative memorandum and that he agreed with him entirely that an en bloc settlement was the best solution to the present problem. Daniels then asked if Minister Puig had a definite proposal either in the nature of a program or figures. Puig informed him that he would prepare a study with concrete proposals to be delivered soon after May 1st.<sup>2</sup>

More than five months passed, for it was not until October that the Mexican Foreign Office made a specific proposition for a lump-sum settlement. On October 12, the Mexican Ambassador to the United States, Dr. González Roa, who was the Mexican authority on claims, returned to Mexico and in person conferred with Daniels about the desirability of a lump-sum agreement exactly as they had done in Washington in March.<sup>3</sup> After several

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<sup>1</sup>Daniels to Hull, May 12, 1933, Department of State, Foreign Relations of the United States, 1933 (Washington, 1952), V, 800-801. Hereafter cited as Foreign Relations.

<sup>2</sup>Ibid.

<sup>3</sup>Daniels, op. cit., p. 120.



sessions together, Dr. Roa proposed a lump-sum settlement of \$13,500,000.<sup>1</sup> This sum would amount to a recovery of 2.65 per cent for memorialized claims (those that had been formally accepted by the claims commission) and 1.25 per cent for unmemorialized claims. The former figure was based on the average recovery by six European nations for similar claims, and the latter was the average recovery by the United States in its claims conventions with Mexico in 1839 and 1868.<sup>2</sup> Ambassador Roa suggested payments extending over a period of 30 years with no payment of interest during liquidation. In support of the time period, Roa pointed out that the internal debt of Mexico was being liquidated in 40 years. He also referred to the long-term payments of the Italian inter-governmental debt to the United States and to the payment by Germany of awards of the German-American claims commission.<sup>3</sup>

Ambassador Daniels favored acceptance of the Mexican proposal. In a communication to Secretary of State Cordell Hull on November 1, Daniels indicated that he felt it was his duty to say that "if possible to reach any fair agreement on a fixed amount, our government should be ready to go more than half the way."<sup>4</sup> Daniels also pointed out that the record of past claims conventions with Mexico showed that the United States had received since 1838 an average return of approximately two per cent. Daniels felt that, unless an en bloc settlement was reached, the only alternative was a return to the old claims commission. He knew that the continual hearing in

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<sup>1</sup>Daniels to Hull, November 1, 1933, Foreign Relations, V, 806.

<sup>2</sup>Cronon, op. cit., p. 78.

<sup>3</sup>Daniels to Acting Secretary of State William Phillips, November 17, 1933, Foreign Relations, V, 808-09.

<sup>4</sup>Daniels to Hull, November 1, 1933, Ibid., p. 808.

the United States Congress, with charges and counter charges growing out of the padded claims presented by both sides, "threatened to make friction and deny the relation of brotherhood so much desired."<sup>1</sup>

The State Department did not fail to give careful and detailed consideration to the Mexican proposal. Although it would have preferred to settle the entire claims matter immediately, the State Department concluded that the current proposal of the Mexican Government was unacceptable both as regards amount and terms of payment.<sup>2</sup>

Although it rejected on December 9th, the Mexican proposal for an en bloc settlement of all special and general claims, the United States proposed a General Claims Protocol for the evaluation of these claims. Daniels was instructed to bring about the acceptance of the American protocol on general claims while he was to suggest to the Mexican Government that it draft a similar protocol for purposes of negotiating the special claims. The State Department felt that if the Mexican Government were itself to sponsor one of the protocols that would create a greater feeling of mutual-ity in the matter.<sup>3</sup>

Finally, on April 24, 1934, after protracted negotiations, a Convention on Special Claims (providing for a lump-sum settlement of special claims against Mexico) and a General Claims Protocol were signed in Mexico City by Daniels and Puig.<sup>4</sup> Difficulties arose in getting the United States Congress to ratify the Special Claims Convention. While the approval of it

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<sup>1</sup>Ibid.

<sup>2</sup>Phillips to Daniels, December 9, 1933, ibid., p. 813.

<sup>3</sup>Phillips to Daniels, December 16, 1933, ibid., pp. 814-16.

<sup>4</sup>New York Times, April 25, 1934, p. 16.

was pending in the Senate, Ambassador Daniels appeared before its Committee on Foreign Affairs, explained in detail the significance of the Convention, and answered interrogations of various members. In response to a request by committee chairman Key Pittman, Daniels wrote him a letter on May 26, 1934 in which he pointed out that all the claims in debate had originated between 1910 and 1920--the tragic years following the overthrow of the Díaz regime when Mexico lacked stable government. The amount of settlement, 2.65 per cent, was the same as that accepted by the European governments. Daniels further stated that by "accepting this settlement we would go a long way toward demonstrating our friendly and neighborly disposition and help materially to further a solution to other important questions."<sup>1</sup> Soon after the Ambassador's plea for acceptance, the Senate ratified the Convention on Special Claims on June 15, 1934.<sup>2</sup> Ratifications of the Special Claims Convention were exchanged at Mexico City on December 13, 1934<sup>3</sup> while ratifications of the General Claims Protocol were exchanged at Washington on February 1, 1935.<sup>4</sup>

The General Claims Protocol provided that each government designate an outstanding jurist to evaluate and classify the general claims which dated back to July 4, 1868. In the event of disagreement, the commissioners were to call in an umpire.<sup>5</sup> Additional problems derived from the general claims

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<sup>1</sup>Daniels, op. cit., pp. 120-21.

<sup>2</sup>New York Times, June 16, 1934, p. 6.

<sup>3</sup>Convention on Special Claims, Foreign Relations, V, 467.

<sup>4</sup>Protocol on General Claims, ibid., p. 470.

<sup>5</sup>New York Times, April 25, 1934, p. 16.

settlement plagued the two governments until 1941.<sup>1</sup> The Special Claims problem met with more immediate success in its solution. The convention for settling this group of claims provided for an en bloc settlement by which the Mexican Government agreed to pay the United States \$500,000 annually beginning on January 1, 1935 until the amount of \$7,000,000 was paid.<sup>2</sup>

For more than a quarter of a century, there were attempts to secure treaties that would be of mutual advantage to both the United States and Mexico. But most of them failed until the adoption of the Good Neighbor policy accelerated agreement. Daniels referred to the settlement of the claims issue as "the first fruit of that policy."

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<sup>1</sup>See below, Chapters III and IV.

<sup>2</sup>Daniels, op. cit., p. 120.

<sup>3</sup>Ibid., pp. 123-24.

## CHAPTER III

### THE LAND EXPROPRIATION CONTROVERSY

During the long dictatorship of Porfirio Díaz (1877-1911), Mexican resources came largely under the control of a small group of Mexicans and foreigners who became enormously rich. Díaz leased or sold vast portions of Mexican agricultural and mineral lands to aliens in the hope of attracting foreign capital to build railroads in Mexico and modernize its agriculture and industry.<sup>1</sup>

As a result of the systematic exploitation of labor, beautiful estates grew up, but the apparent prosperity was erected on a foundation of poverty and ignorance which no self-respecting country could endure indefinitely.<sup>2</sup> By the time Díaz was overthrown, rural Mexico was in effect the private property of a small number of immensely rich and powerful hacendados, proprietors of large estates who owned most of the countryside. Less than three per cent of the Mexican people owned any land at all. Under such conditions, it is not surprising that the Mexican peons eagerly rallied to the Revolution's battle cry of "Land and Liberty."<sup>3</sup>

Modern agrarian reform in Mexico began with Carranza and rested in the first instance on two legal foundations; namely, Carranza's decree of

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<sup>1</sup>Cronon, op. cit., pp. 32-33.

<sup>2</sup>William C. Townsend, Lázaro Cárdenas: Mexican Democrat (Ann Arbor, 1952), p. 154.

<sup>3</sup>Cronon, op. cit., p. 33.

January 6, 1915 and Article 27 of the Constitution which went into effect on February 5, 1917.<sup>1</sup> The decree of January 6, 1915 ordered the restitution of communal lands to villages that had lost their holdings under the Díaz regime. The decree also authorized the dotation, or granting, of public and private lands to those villages lacking legal evidence to prove the original village ownership. The essence of this decree was embodied in Article 27 of the Constitution of 1917, which called for a return to the ejido system by asserting the basic right of the villages to whatever "water, woods, and land" the members of the village in common might need. Under Article 27, dotation of new land was recognized as equal in importance with restitution of previously held land. The Constitution, moreover, specified that the new grants could be taken from any public or privately owned lands in the vicinity of the petitioning village instead of only from immediately adjoining lands as under the decree of 1915. This provision greatly broadened the potential scope of the reform program and vastly increased the amount of land available for distribution. Any village could then petition the government for land on the ground of collective need. If a petition asking restitution of previously held land failed for lack of proof of village ownership the principle of dotation was to be automatically invoked.<sup>2</sup>

The legal machinery for the restitution of land consisted of a National Agrarian Commission, State Agrarian Commissions for each state, and as many local village committees as might be necessary. Petitions for either the restoration or dotation of ejidos were to be presented in the first

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<sup>1</sup>Eyler N. Simpson, The Ejido: Mexico's Way Out (Chapel Hill, 1937), p. 56.

<sup>2</sup>Cronon, op. cit., pp. 39-40.

instance directly to the governors of the states. Upon being approved by the governor, after due investigation by the State Agrarian Commission, the petitioning village would be given possession of the land through its local committee. This possession, however, was considered to be provisional until such time as the case was reviewed by the National Agrarian Commission--final title being granted by the President of the Republic upon recommendation of the National Commission.<sup>1</sup>

In spite of the brave words of the 1915 decree and Article 27, the actual distribution of land proved to be a slow process. Carranza, who was forced by the revolutionary ferment to pose as a champion of land reform, actually had no real desire to implement the constitutional provisions. Consequently, he distributed only about 180,000 hectares of land to 190 villages during the years 1915 to 1920. President Álvaro Obregón, who succeeded to the presidency in 1920, moved with considerably greater vigor. The Obregón administration distributed about 1,200,000 hectares of land during his four-year term.<sup>2</sup>

Under President Plutarco E. Calles (1924-28), the agrarian laws were broadened in 1927 to include grants to any poblado, or populated place, rather than merely to those villages possessing political rights. The Calles administration distributed more than 3,200,000 hectares of land, or approximately two and a half times as much as had been distributed by the preceding revolutionary governments.<sup>3</sup>

Since, as late as 1923, foreigners held more than one-fifth of the

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<sup>1</sup>Simpson, op. cit., p. 58.

<sup>2</sup>Cronon, op. cit., p. 40.

<sup>3</sup>Ibid., pp. 40-41.

privately owned lands of Mexico, the Mexican land-reform program was bound to affect alien interests. Of the total foreign holdings, Americans owned 16,558,000 hectares, or about 52 per cent; Spaniards held about 6,233,000 hectares, or about 20 per cent; and the British owned 5,313,000 hectares, or 17 per cent. By the end of 1927, when the pace of land distribution slackened, nearly 700,000 hectares of foreign owned estates had been expropriated for the agrarian program.<sup>1</sup>

Ambassador Dwight W. Morrow, who was sent to Mexico in 1927, was able to effect a compromise on agrarian and mineral legislation. Two months after Morrow reached Mexico, the Mexican Congress authorized President Calles to modify the agrarian laws. Although Calles had previously distributed more land than any other Mexican President before him, not long after Morrow's arrival he was calling an end to further ejido grants.<sup>2</sup>

The long era of inaction and retreat in the sphere of agrarian reform ended with the inauguration of Lázaro Cárdenas as President in 1934. President Cárdenas believed that the agrarian problem had to be settled once and for all if stability in Mexico were to be achieved. He believed it so thoroughly that problems which seemed insurmountable to others did not stop him.<sup>3</sup> Cárdenas personally supervised hundreds of transfers of land from hacienda, or large estate, to ejido, or common land. During his six years in office, he gave the villages almost 45,000,000 acres, twice as much as had been transferred by 1934. When he left office, more than half of all Mexicans were members of ejido communities with lands of their own embracing

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<sup>1</sup>Ibid., p. 41.

<sup>2</sup>Ibid., pp. 50-51.

<sup>3</sup>Nathaniel and Sylvia Weyl, The Reconquest of Mexico (New York, 1939), p. 171.



almost half of the crop land of the nation.<sup>1</sup> For President Cárdenas, the breaking up of the large estates was the main point in the national program for improving the living conditions of the peasants of Mexico. In a letter to William C. Townsend, Cárdenas stated: "The ideal of giving land to the masses was written into the Constitution at the cost of much bloodshed and my government is duty bound to comply with that mandate."<sup>2</sup>

Clearly, however, the Mexican Government was in no position to buy all the land it felt obliged to distribute. However, Mexico very early acknowledged an obligation to compensate land-owners for land taken under the agrarian program. The big question was how. At the beginning, the revolutionary leaders thought that the villagers should pay for whatever land they received. This idea was soon dropped as impractical and, in 1920, the Obregón government recognized the central government's responsibility to pay for the lands taken. Consequently, the government authorized the issuance of long-term, interest-bearing agrarian bonds as compensation for land taken. In practice, this was of little benefit to the affected landowners, for between 1920 and 1933, the bonds issued totaled less than 25 million pesos, and indemnified only 170 persons whose claims covered only 223,000 hectares of land. By 1933, the government had distributed approximately six million hectares of land and thus incurred a potential agrarian debt of from a half-billion to a billion pesos. Even before the advent of President Cárdenas, it was abundantly clear that Mexico would never acknowledge the full debt nor pay more than a fraction of the real value of whatever part of the debt it chose to recognize. By the time Ambassador Daniels arrived in Mexico, the

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<sup>1</sup>Hubert Herring, A History of Latin America (New York, 1956), p. 380.

<sup>2</sup>Townsend, op. cit., p. 152.

government had ceased to issue further agrarian bonds and had suspended interest payments on the outstanding bonds.<sup>1</sup>

From the start of the Mexican land-reform program, the United States consistently held that, while Mexico had the right to expropriate private property, no American-owned land should be taken unless prompt, adequate, and effective compensation was made. The extremely vague character of the Mexican agrarian laws and the fact that after 1932 Mexican courts ruled that the agrarian program was not subject to judicial review made it difficult for the United States to do more than issue ineffectual protests against the injustice and illegalities of the program. Without going beyond the bounds of polite diplomacy, Washington could only demand that Mexico pay immediate and effective compensation to American citizens affected by the Mexican agrarian program.<sup>2</sup>

Demands for compensation did little or nothing to save American lands from expropriation, since under the agrarian laws the question of compensation did not arise until after the transfer of ownership had actually taken place. The landholder then had a year in which to file his claim with the government. From his staff, Ambassador Daniels learned that the embassy in the past had limited its efforts to seeing that Americans received the full protection of existing Mexican laws.<sup>3</sup>

Both the United States and Mexico desired to solve problems related to the latter's expropriation practices. A General Claims Protocol, signed on April 24, 1934, provided that Mexico and the United States by discussion

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<sup>1</sup>Cronon, op. cit., pp. 132-33.

<sup>2</sup>Ibid., pp. 133-134.

<sup>3</sup>Ibid.

seek to solve the problem of agrarian claims growing out of the pre-1927 expropriations. Consequently, the State Department sent two claims experts, Joseph R. Baker and Peter H. A. Flood, to Mexico City to engage in the informal discussion in April, 1935. In giving his instructions, Secretary of State Hull pointed out to these experts that it was not the purpose of the Department to agree to any settlement which would unduly sacrifice the interests of American claimants. He continued by stating that many American claimants had already suffered the loss of substantial property rights without receiving that "just compensation to which they are entitled under the applicable rules and principles of international law." The informal discussions were carried on by Baker and Flood until August, 1935 when they were recalled to Washington without having reached an agreement<sup>1</sup> upon a method of procedure by which the claims would be submitted to commissioners for appraisal with the objective of looking to a lump-sum settlement.<sup>2</sup>

Following the departure of Baker and Flood, negotiations were carried on by Ambassador Daniels. In October, 1935, Daniels recommended the acceptance of a draft protocol as proposed by the Mexican Foreign Office for the adjustment of the so-called agrarian claims which had been filed with the General Claims Commission. The State Department considered the proposed protocol unsatisfactory from the standpoint of the United States because it was particularly disturbed by statements contained in the aide-memoire, representing the interpretation which the Mexican Government placed upon certain provisions of the proposed protocol. This interpretation had as its objective

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<sup>1</sup>Hull to Baker and Flood, April 4, 1935, Foreign Relations, IV, 753-54.

<sup>2</sup>Daniels to the Mexican Minister for Foreign Affairs, Sierra, January 21, 1936, ibid., V, 752.

the prevention of any juridical discussion of the Mexican Constitution and Mexican laws. The Department felt that if the United States should accept the draft, subsequent proceedings would clearly reveal that this interpretation would be upheld by Mexican officials to the possible detriment of the United States and its citizens who were claimants against Mexico on account of lands expropriated from them by the Mexican authorities.<sup>1</sup>

The State Department instructed Daniels that, unless the Mexican Government receded from its position as disclosed by the draft under consideration and the accompanying aide-memoire, the United States would have no alternative but to consider the negotiations at an end and to proceed with the filing of memorials of the so-called agrarian claims with the General Claims Commission leaving it to the Mexican Government to answer them or not as it may see fit.<sup>2</sup>

In a communication to the State Department on November 9, 1935, Daniels expressed the belief that to end the negotiations at this time would close the door to further negotiations. He pointed out that, from the Mexican point of view, the object of the proposed protocol in removing agrarian claims from adjudication by the General Claims Commission was to avoid any juridical discussion of the Mexican Constitution and laws, which had been the object of Mexico from the very beginning of the discussions. The Mexican negotiator never wavered in his demand that the claims should be decided upon the facts in each case and that all legal discussion should be avoided. It was the hope of the Mexican Government that, once a convention was signed, an arrangement could be made for an en bloc settlement of these agrarian

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<sup>1</sup>Hull to Daniels, November 2, 1935, ibid., IV, 754-55.

<sup>2</sup>Ibid., p. 757.

claims which were made before August 30, 1927. This would be in accord with procedures followed in the special claims case.<sup>1</sup>

When Ambassador Daniels went home for the Christmas holidays, he discussed the proposed protocol at considerable length with officials of the State Department. Upon his return to Mexico, he told the Mexican Government officials, in January, 1936, that the State Department had reached the conclusion that if an agreement was not reached by February 1, 1936, the American agent would have to proceed with the filing of memorials in the agrarian claims since the time within which these memorials could be filed under the protocol of 1934 was fast disappearing. The Mexican official pointed out that under the protocol the American agent had a perfect right to do so. Daniels made it plain that the United States could not agree to waive the right to insist that settlement must be made on the basis of "justice, equity, and international law" and he proceeded to point out that the General Claims Convention of 1923, Article 9, ratified by both Governments, recognized that the principles of international law, justice, and equity would govern. Our Government, he said, felt that it could not agree that any settlement should be reached upon any other basis and that the treaty of 1934 had not changed that right.<sup>2</sup>

No agreement was reached and Daniels received instructions from Secretary Hull to terminate, as of February 1, 1936, the informal discussion of agrarian claims filed with the General Claims Commission covering expropriations prior to September, 1927 as provided for in the protocol of April 24,

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<sup>1</sup>Daniels to Assistant Secretary of State Walton Moore, November 9, 1935, ibid., pp. 757-59.

<sup>2</sup>Daniels to Hull, January 21, 1936, ibid., V, 750-52.

1934.<sup>1</sup>

With the General Claims Commission keeping responsibility for agrarian claims prior to September, 1927, Ambassador Daniels next concentrated on securing a pledge from Mexican authorities not to take further American-owned land until they had first paid for properties already expropriated. As early as September, 1935, Daniels had urged that no more land be taken from American citizens until adequate provision had been made to pay for them.<sup>2</sup> The State Department commended Daniels' action in this respect and instructed him to keep the matter actively before the Mexican Government until a satisfactory outcome had been assured.<sup>3</sup>

Mexico still sought a solution. The Acting Minister for Foreign Affairs, Mr. Cenicerros, reported in October, 1935 that President Cárdenas was very much concerned over the insistence of Ambassador Daniels' representations that adequate compensation be paid for lands expropriated from American citizens. The Acting Minister further pointed out that it was impossible for the Mexican Government to give cash or bonds for lands expropriated since all surplus in the Treasury had been earmarked for other purposes. Moreover, the Government could not give out bonds in the enormous amount that would be necessary to reimburse all persons for lands that had been, and might be in the future, expropriated from them. If compensation were given to American citizens, the Mexican Government would be obliged to pay all other foreigners and Mexican citizens as well.<sup>4</sup>

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<sup>1</sup>Daniels to Hull, February 6, 1936, ibid., p. 757.

<sup>2</sup>Daniels to Hull, September 19, 1935, ibid., IV, 776.

<sup>3</sup>Hull to Daniels, September 28, 1935, ibid., p. 778.

<sup>4</sup>Daniels to Hull, October 10, 1935, ibid., pp. 778-79.

Earlier in the month, Cenicerros had suggested that the Mexican Government might be disposed to refrain from further seizure of American-owned lands without prompt payment of adequate compensation. The State Department shared Daniels' opinion that a commitment of this nature, even if informally and confidentially given, would contribute to the mitigation of a continuous cause of friction between the countries. The State Department felt that the suggestion would involve no recognition of rights of United States citizens in excess of those guaranteed by the second paragraph of Article 27 of the Constitution of Mexico which stipulates that "private property shall not be expropriated except for reason of public utility and subject to payment of indemnity."<sup>1</sup> Hull stated to Daniels that

it is understood, of course, that the proposed exemption of American citizens from future expropriation could not be conditioned upon any undertaking on the part of the United States Government to acquiesce, either tacitly or otherwise, in the failure of the Mexican Government to compensate those American citizens whose lands have already been taken.<sup>2</sup>

In November, Cenicerros asked that the American Government refrain from pressing the matter further until after the new year opened because he strongly believed that by that time President Cárdenas would be ready to make a proposal which he believed would be satisfactory to the American Government.<sup>3</sup>

The United States patiently awaited the Mexican proposal and refrained from pressing a solution to the matter in the expectation that a satisfactory solution would be made by the Mexican Government. However, as late as April 16, 1936, no proposal had been advanced by the Mexican Government. The

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<sup>1</sup>Hull to Daniels, October 23, 1935, ibid., p. 780.

<sup>2</sup>Ibid.

<sup>3</sup>Daniels to Hull, November 22, 1935, ibid., p. 782.

United States did not consider that it would be justified in longer withholding representation in the matter. Therefore, the State Department instructed Daniels to inform the Mexican Government that, in accordance with its promise, it hoped to soon receive proposals providing for (1) the indemnification of American citizens for land already expropriated, and (2) positive assurance that no more land would be taken from American citizens without the payment of prompt and adequate compensation.<sup>1</sup>

More than four months passed and the Mexican Government still failed to respond to the United States representations of April, 1936. Daniels, therefore, was instructed again to bring the matter urgently to the attention of the appropriate Mexican authorities.<sup>2</sup> Daniels made formal representation again in September, 1936. He pointed out in a memorandum to the Mexican Foreign Office that the promised proposal had not been received and that in the meantime, contrary to the Mexican Constitution, properties of American citizens continued to be expropriated without compensation. The United States, Daniels stated, viewed with deep concern such expropriation without compensation.<sup>3</sup> In a conversation with Mexican officials in October at the Foreign Office, Francisco Castillo Nájera, Mexican Ambassador to the United States, told Daniels that President Cárdenas would make the budget for agrarian property just as large as possible at the first of the year. Daniels inquired whether it would be in money or bonds and was informed by the Undersecretary of Foreign Affairs, Beteta, that the fund was to be mainly in bonds

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<sup>1</sup>Daniels to the Mexican Minister for Foreign Affairs, Hay, April 16, 1936, ibid., V, 693-94.

<sup>2</sup>More to Daniels, August 8, 1936, ibid., p. 694.

<sup>3</sup>Daniels to Hull, September 17, 1936, ibid., p. 695.



and with some cash.<sup>1</sup>

In December, President Cárdenas stated to Daniels that it was his intention to have the budget for the next year provide for the resumption of the issuance of agrarian bonds. The President stated that he planned to resume the issuance of these bonds even if it were only for a small amount each year. He continued by saying that he realized that the amount of compensation which landowners would actually receive each year would be considered inadequate but that "the magnitude of the agrarian debt, amounting to many millions or more, precluded any other system."<sup>2</sup>

Another year passed without a satisfactory proposal being presented by the Mexican Government. In a conversation held in December, 1937, between United States and Mexican officials in Washington, the Mexican Minister of Finance, Eduardo Suárez, stated that he was giving study to the possibility of the issuance of agrarian bonds. The possibility was complicated by the fact that the Mexican Government did not wish to give bonds to the nationals of one country and not give them to the nationals of all the others, as well as to the Mexican citizens. During the course of the discussion, it was brought out that the interest of the United States was in quick compensation for its citizens rather than in delaying tactics or excuses.<sup>3</sup>

The United States Department of State decided early in 1938 to press for a solution to the claims issue. In response to inquiries at his press

<sup>1</sup>Daniels to Hull, October 20, 1936, ibid., pp. 707-08.

<sup>2</sup>Memorandum by Pierre Boal, Counselor for the Embassy, December 15, 1936, ibid., p. 711.

<sup>3</sup>Memorandum of Conversation by Laurence Duggan, Chief of the Division of the American Republics, December 14, 1937, ibid., V, 641.

conference in the latter part of March, 1938, Secretary Hull pointed out that during the past few years, in pursuance of its national policy, the Mexican Government had expropriated and was continuing to expropriate properties of American citizens. He made it plain that the United States did not question the right of the Government of Mexico to expropriate properties within its jurisdiction and he emphasized the fact that the United States had on numerous occasions and in a friendly manner pointed out to Mexico that

in accordance with every principle of international law, of comity between nations and of equity, the properties of its nationals so expropriated are required to be paid for by compensation representing fair, assured and effective value to the nationals from whom these properties were taken.<sup>1</sup>

In the summer of 1938, the State Department again stepped up its pressure regarding the agrarian claims. It listed some \$10,000,000 of outstanding unpaid American claims against Mexico since 1927 arising from the expropriation of American owned lands.<sup>2</sup>

In the meantime, President Cárdenas and his advisers recognized that the famous oil expropriation of March 18, 1938 made it necessary to pay more attention to United States requests for an agrarian settlement, if Mexico's offer to compensate the oil companies were to carry conviction. With this in mind, a few weeks after the oil expropriation, Cárdenas offered to begin making monthly payments on the agrarian debt, giving special priority to Americans with hardship cases. As a beginning, Cárdenas promised to set aside 120,000 pesos monthly as a continuing compensation for the expropriations of agrarian properties belonging to American citizens. Cárdenas made it clear that this monthly segregation of 120,000 pesos was intended solely

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<sup>1</sup>Press Statement by Hull, March 30, 1938, ibid., V, 662.

<sup>2</sup>Cline, op. cit., p. 245.

to provide compensation for the American owners of agrarian properties in the Yaqui Valley, which he computed as totaling 4,000,000 pesos. In discussing this, the Mexican Ambassador, Nájera, pointed out to Undersecretary of States Welles that President Cárdenas was still studying ways to pay for the other expropriated agrarian properties and said that all the small American landowners whose lands had been expropriated would be paid in cash before the end of the Mexican President's term. The President intended to compensate the large landowners in agrarian bonds.<sup>1</sup>

Undersecretary of State Welles informed Ambassador Nájera that he was glad to have this partially encouraging information. However, he desired to register the emphatic opinion that, insofar as its nationals were concerned, this government could not agree to the drawing of any distinction between one group of Americans whose properties had been expropriated in Mexico and another group solely because one group happened to own larger tracts than the other. Nájera said that he fully understood the legitimacy of this position but he felt that President Cárdenas wished it made clear that his Government appreciated the urgent need of some of the American individuals whose land had been seized.

The State Department, however, had a rather different view of the proper agrarian settlement. Consequently, on June 29, 1938, Welles proposed a settlement of the agrarian claims. His proposal was concerned solely with claims arising out of the expropriations made since August 30, 1927. With respect to these claims, the United States intended to make a settlement in accordance with the provisions of the General Claims Convention of 1934.

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<sup>1</sup>Memorandum of Conversation by Welles, May 9, 1938, Foreign Relations, V, 750-51.

<sup>2</sup>Ibid.

Welles' June plan proposed that the Mexican Government set aside monthly for the next thirty months the approximate sum of \$337,000 for the exclusive purpose of making compensation for expropriated American property. Welles calculated these claims to be more than \$10,000,000.<sup>1</sup> Welles' proposal was rejected by Mexico. Foreign Minister Hay considered the proposal to establish a previous deposit as a guarantee of payment for the expropriated lands incompatible with the good faith and mutual confidence which should prevail among nations.<sup>2</sup>

Following the Mexican rejection of Welles' plan, Hull handed Mexican Ambassador Nájera a note on July 21 protesting Mexico's long record of seizing American owned lands without making prompt payment of just compensation. Hull stated that "the taking of property without compensation is not expropriation. It is confiscation. It is no less confiscation because there may be an expressed intent to pay at some time in the future." In an effort to bring the agrarian controversy to an end, Hull, in the same note, asked Mexico to agree to arbitrate the question of whether she had complied with international law in compensating American landowners, and if she had not, to let the arbitral commission set the amount and terms under which such compensation should be made.<sup>3</sup>

Foreign Minister Hay rejected Hull's proposal to arbitrate on August 3rd. Hay pointed out that Mexico considered that arbitration should be reserved for cases of irreducible differences in which either the juridical

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<sup>1</sup>Welles to Nájera, June 29, 1938, ibid., pp. 669-72.

<sup>2</sup>Hay to Daniels, September 1, 1938, S. Shepard Jones and Denys P. Myers (eds.), Documents on American Foreign Relations (Boston, 1939), I, 115. Hereafter cited as Documents.

<sup>3</sup>Hull to Nájera, July 21, 1938, ibid., pp. 90-92.

principle under discussion or the acts giving origin to the arbitration are of such character that the two people at variance do not find any more obvious way of coming to such an agreement. He declared that such was not the case because Article 27 of the Mexican Constitution ordained payment for properties which the state expropriates on grounds of public utility, therefore, the Mexican Government has never denied such obligation. Consequently Hay felt that there was no subject matter for the proposed arbitration.<sup>1</sup>

In the same communication in which Hay rejected Hull's arbitration proposal, he suggested that the two countries appoint one representative each for the purpose of evaluating American agrarian properties which had been expropriated and determining the manner or payment. Hay stated that he believed in this way the request of American citizens for payment for lands which had been taken from them subsequent to August 30, 1927 could be satisfied.<sup>2</sup>

Several weeks passed before agreement was reached on Hay's suggestion. On August 22nd, Hull called upon Mexico to settle the agrarian dispute through either regular arbitration or a mixed claims commission headed by an impartial arbitrator. Meanwhile no more American lands should be taken without arrangements for adequate, prompt, and effective compensation.<sup>3</sup> Mexico agreed to submit the agrarian claims to a two-man commission subject to the ruling of a third impartial arbitrator on September 1. With regard to the future agrarian expropriation, the Foreign Minister stated that while the Government of Mexico was unable to prevent the application of the agrarian law, it would limit itself in each case to submitting to the consideration

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<sup>1</sup>Hay to Daniels, August 3, 1938, ibid., p. 97.

<sup>2</sup>Ibid., pp. 97-98.

<sup>3</sup>Hull to Nájera, August 22, 1938, ibid., pp. 109-10.

of the proposed commission the amount and terms of payment.<sup>1</sup>

On September 20, Hull suggested to Nájera that the two governments begin quiet oral conversations on the practical details of a settlement based on a mixed claims commission. Over the next few weeks the two governments discussed the details of a settlement. A snag soon developed over the question of how much Mexico should pay for the agrarian claims each year. The State Department felt that the first Mexican offer of \$500,000 was inadequate. Daniels conceded that the sum was not as much as desired, but he suggested that it would be wiser to agree to some figure that Mexico could afford to pay regularly than to insist upon larger promises which might not be met.<sup>2</sup>

In the negotiations that followed, the State Department was determined to raise the payments as high as possible. Undersecretary of State Welles proposed to Ambassador Nájera that Mexico pay \$1,000,000 on agrarian claims in 1939 and the balance in four annual installments. Since the total debt would not be determined until after the claims commission had completed its work, this was asking the Mexican Government to sign a blank check. As soon as he learned of Welles proposal, President Cárdenas called Daniels to the National Palace and protested that he could not get his Congress to approve an agreement committing the country to a series of undetermined payments. The President offered instead to pay \$1,000,000 a year until the American agrarian claims were liquidated. Daniels promptly telephoned this welcome news to Washington.<sup>3</sup>

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<sup>1</sup>Hay to Daniels, September 1, 1938, ibid., p. 115.

<sup>2</sup>Cronon, op. cit., pp. 226-27

<sup>3</sup>Ibid., pp. 227-28.

A few days later, the State Department informed Najera that the United States would accept Cardenas' offer, provided Mexico pay the first \$1,000,000 within six months after the claims commission began its work. The two governments could agree upon subsequent payments after the commission had determined the value of the claims. However, they were required to be at least \$1,000,000 a year.<sup>1</sup> Hull formally outlined the settlement in a public note in which he stated

my Government has a particular desire to safeguard friendship with Mexico not only because Mexico is one of its nearest neighbors but on account of the many ways in which ever improving relations, in the fullest sense, between the two countries could be complementary and mutually beneficial. It has, therefore, spared no effort to arrive at prompt, friendly and satisfactory solutions of problems as they arose.<sup>2</sup>

Mexico promptly confirmed its approval of the settlement but with the following reservation:

The Government of Mexico deems it necessary to have it understood that the decision reached by the representatives designated, shall in no case extend beyond evaluation of the land expropriated and the modalities of payment of the amount determined; that they shall not constitute a precedent, in any case nor for any reason.<sup>3</sup>

Daniels at no time during the agrarian controversy approved of the State Department's stern approach. He was aware that such a course could imperil the Good Neighbor policy and embitter United States relations with the rest of Latin America. He reminded President Roosevelt that

patience is the virtue essential in a Good Neighbor Policy. The delicate situation here is putting that doctrine to a severe test. It is more important that it be maintained than that any particular debt collection be pressed.<sup>4</sup>

<sup>1</sup>Ibid.

<sup>2</sup>Hull to Najera, November 9, 1938, Documents, I, 116.

<sup>3</sup>Hay to Daniels, November 12, 1938, ibid., p. 120.

<sup>4</sup>Daniels to Roosevelt, July 2, 1938, Roosevelt Papers, quoted in Cronon, op. cit., p. 216.

Though the agrarian controversy put the Good Neighbor policy to a severe test, it was mild in comparison to the one brought on by the expropriation of American oil properties in Mexico.



## CHAPTER IV

### THE OIL EXPROPRIATION CONTROVERSY

The background of the oil expropriation controversy in United States-Mexican relations goes back to the adoption of the new Mexican Constitution in 1917. Article 27 of the Constitution enunciated the doctrine that "in the nation is vested direct ownership of all minerals or substances...petroleum and all hydrocarbons--solid, liquid or gaseous."<sup>1</sup> According to the doctrine a grant of oil land, or its purchase, did not entitle the owner to more than the right to use the surface. In order to dig minerals or extract oil, permission from the Mexican nation was necessary. Most of the oil, mineral, and agricultural holdings of Americans had been obtained between 1876 and 1917. The Americans became increasingly concerned about the application of this new doctrine.<sup>2</sup>

In 1917, President Venustiano Carranza of Mexico assured the United States Ambassador, Henry P. Fletcher, that existing American properties would not be subject to action under Article 27 of the new Mexican Constitution. Carranza did not keep his promise. He demanded that Americans apply for drilling permits and began to tax them. The companies ignored the requests and orders to obtain permits. Under Anglo-American and international

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<sup>1</sup>"Mexican Constitution of 1917," Department of State, Papers Relating to the Foreign Relations of the United States, 1917 (Washington, 1926), p. 955

<sup>2</sup>Cline, op. cit., p. 205.

law, the companies owned the land which they had bought and its subsoil properties as well--although the Mexican law said they did not. For the time being the government did not enforce it.<sup>1</sup>

After Carranza's downfall in 1920, Alvaro Obregón was constitutionally elected president by popular suffrage in September, 1920.<sup>2</sup> Woodrow Wilson's administration refrained from recognizing the new Obregón Government in the absence of a specific understanding about the protection of American nationals and property under the new Mexican Constitution. The Republican administrations of Harding and Coolidge followed the same policy. President Obregón gave his personal assurances for the security of American life and property in Mexico and for the ownership of land acquired by Americans prior to the adoption of the new Constitution on May 1, 1917, but these promises bound only Obregón and his existing government. Secretary of State Charles E. Hughes insisted that recognition must be contingent upon a treaty which would explicitly bind the Mexican nation itself to adequate guarantees. This Obregón refused.<sup>3</sup>

In an effort to ease the tension, Obregón arranged for the Mexican Supreme Court, which was sitting on a number of oil cases, to enunciate the doctrine of the "positive acts" in 1921. The Court handed down a judgment in favor of the Texas Oil Company on September 26th when it declared that if owners of oil lands had actually erected drilling equipment or otherwise had performed some "positive acts" before the Constitution of 1917 had gone into effect, their holdings were secure. Such lands were exempted from the

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<sup>1</sup>Ibid.

<sup>2</sup>Bemis, The Latin American Policy, p. 214.

<sup>3</sup>Bemis, A Short History, pp. 335-36.

requirement of getting government permits to drill. For all intents and purposes, the companies owned both the land and its oil.<sup>1</sup>

Despite the decision of the court, Hughes still wanted a firm commitment in treaty form which would be binding on all future Mexican Governments. Obregón would not agree to a treaty but suggested that the countries talk over the matters at issue. Secretary Hughes accepted the suggestion and two commissions from each each nation were named to discuss jointly the whole matter of foreign holdings and to report their findings to their respective governments.<sup>2</sup>

The meetings of the commissioners, from May to August, 1923, became known as the Bucareli Conference. The American representatives accepted the position of the Mexican Government that it had an unquestioned right to regulate the oil industry according to the new reforms providing these reforms did not apply to property acquired under other conditions before the Constitution of 1917 went into effect. The American representatives denied the necessity of a company's having to perform before May 1, 1917 a "positive act" of exploitation in order to validate continuing title to petroleum lands acquired before that date. They held such necessity to be ex post facto. The Mexican representatives clung steadfastly to the necessity of such an act before 1917, but they set forth a definition which was so phrased that the slightest trace of action would suffice for the "positive act." This new statement seemed to mean that on and under lands on which such an act had been performed the subsoil products were excluded from the nationalization program of Article 27. On the basis of the agreements reached in

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<sup>1</sup>Cline, op. cit., p. 206.

<sup>2</sup>Ibid.

the Bucareli Conferences, the United States formally recognized the Government of Mexico de jure under the presidency of Obregón on August 31, 1923.<sup>1</sup>

Plutarco E. Calles, who succeeded Obregón to the presidency of Mexico in 1924, favored a retroactive interpretation of the Constitution of 1917. In 1925, the Mexican Congress enacted permanent legislation for the application of certain petroleum reforms derived from the Constitution of 1917, hitherto embodied in temporary decrees. The United States saw in this new legislation a violation of the Bucareli agreements,<sup>2</sup> for it would have forced the owners of oil properties in Mexico to change their absolute land titles into fifty-year leases.<sup>3</sup>

Because of this new legislation, relations with Mexico had become almost hopelessly embroiled when President Calvin Coolidge appointed Dwight Morrow as United States Ambassador to Mexico in September, 1927.<sup>4</sup> Morrow discussed the subject of American petroleum rights under the 1917 Constitution and subsequent regulatory legislation with President Calles in a private conference on November 8, 1927. During the period in which the conference was held there were cases in the Mexican Court which challenged the constitutionality of the 1925 law. The ambassador indicated to the Mexican President that a decision in one of the cases reaffirming the doctrine of the Texas case would go far toward solving the controversy.<sup>5</sup> Aided by the favorable decision which he had suggested, Morrow finally worked out a

<sup>1</sup>Bemis, A Diplomatic History, p. 558.

<sup>2</sup>Ibid., p. 560.

<sup>3</sup>Weyl, op. cit., p. 291

<sup>4</sup>Bailey, op. cit., p. 713.

<sup>5</sup>Stanley R. Ross, "Dwight Morrow and the Mexican Revolution," Hispanic American Historical Review, XXXVIII (November, 1958), 511.

compromise by which American oil rights secured prior to the Constitution of 1917 could be retained.<sup>1</sup>

The oil settlement effected by Morrow lasted until 1938 when Lázaro Cárdenas expropriated foreign oil properties in Mexico.<sup>2</sup> When Cárdenas came to the Mexican presidency in 1934, he catered to the small farmer and the working man and placed new emphasis upon the slogan "Mexico for the Mexicans." In his attitude to American land and oil interests, he may have drawn courage from the United States' acceptance of the nonintervention principle at Montevideo and Buenos Aires.<sup>3</sup>

President Cárdenas' expropriation decree was the climax of a labor dispute involving seventeen companies. On November 3, 1936, the National Syndicate, a newly formed labor organization, presented demands for a comprehensive labor agreement.<sup>4</sup> The union declared that it should conform to the labor code of 1931 which was based on stipulations found in Article 123 of the Mexican Constitution. The companies were called upon to raise wages and to provide a number of what are now termed fringe benefits. These fringe benefits included an eight-hour-work day, double pay for overtime, strike pay, adequate and sanitary housing, schools for workers and their children, and paid vacations. The union wanted a closed shop and the enforced inclusion of white-collar office forces within union ranks.<sup>5</sup> In November, almost simultaneous with the presentation of these labor demands,

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<sup>1</sup>Bailey, op. cit., p. 713.

<sup>2</sup>Cline, op. cit., p. 212.

<sup>3</sup>Pratt, op. cit., p. 619.

<sup>4</sup>Arthur W. Macmahon, "The Mexican Oil Industry Since Expropriation," Political Science Quarterly, LVII (March, 1942), 32.

<sup>5</sup>Cline, op. cit., p. 232.

the Mexican Congress passed a new Expropriation Law. This act revised the President's power to issue expropriating decrees pursuant to the Constitution of 1917 and this legislation broadened the grounds of "public utility" on which property might be taken.<sup>1</sup>

English and American companies formed a common front to bargain with labor. They were willing to bargain collectively, grant an industry-wide contract, and dicker about fringe benefits. The companies, however, objected to the proposed wage increases which they termed excessive and they were adamant against union insistence on including white-collar office forces under the control of the Petroleum Syndicate. To them this was an unwarranted infringement on the right of management.<sup>2</sup>

Joint conferences failing, a strike was called on May 27, 1937.<sup>3</sup> The public did not respond very sympathetically. When the strike seemed about to fail, the union on June 9th claimed that their walk out was not a strike but an "economic conflict." An "economic conflict" is a more generalized situation in which the basic elements of an industry have become unbalanced to the point where normal strikes have no power. If the federal government recognized the plea that a worker-employee struggle was an "economic conflict," it must (1) arbitrate, (2) conciliate the faction, (3) make an award that would equalize the economic power between employers and workers, and (4) make both sides conform to the award and the labor laws. Arbitration was mandatory in an "economic conflict." Once the erstwhile strike of the union was declared an "economic conflict," the matter passed into legal,

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<sup>1</sup>Macmahon, op. cit., p. 32.

<sup>2</sup>Cline, op. cit., pp. 232-33.

<sup>3</sup>Macmahon, op. cit., p. 33.

official, federal channels. The companies at that point faced Cárdenas, the President of Mexico, not the union.<sup>1</sup>

The Federal Board of Arbitration and Conciliation was the federal organ charged with settling the "economic conflict." The Federal Board created its own investigating commission to determine the facts about the Mexican oil industry and, on the basis of their findings, decided to make recommendations for final awards. The commission made an exhaustive survey and rendered its report on August 3, 1937.<sup>2</sup> After studying the matter for a short time, the Federal Board made its definitive award on August 18, 1937. It ordered the companies to sign the collective contract and raise wages by 27 per cent, calculated at 26,329,393 pesos. Further, the companies were directed to allow their office help to join the Petroleum Syndicate. The Board commanded the employers to provide a 40-hour, 5-day work week, pensions, vacations, life insurance, and housing or housing allowances.<sup>3</sup>

Although the August 18th award of the Federal Board was an order from the authorized Mexican labor tribunal, the companies ignored it. On December 28, 1937, the oil companies instituted suit in the Mexican Supreme Court and demanded injunctive remedy.<sup>4</sup> Under Mexican law the Supreme Court could issue an order suspending the action of administrative agencies until the constitutionality of their action was decided. The application of the companies claimed that they were unable to pay the sum awarded.<sup>5</sup>

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<sup>1</sup>Cline, op. cit., pp. 233-34.

<sup>2</sup>Ibid., p. 234.

<sup>3</sup>Ibid., p. 235.

<sup>4</sup>Weyl, op. cit., p. 297.

<sup>5</sup>Cline, op. cit., p. 235.

On March 1, 1938, the highest tribunal in the land rejected the appeal and ratified the findings of the Board.<sup>1</sup> The Board then set a deadline of March 7th for compliance with their August 18th award. The companies then began to bargain with the Board and workers. They offered to raise wages by 24,000,000 pesos. Speaking in behalf of the workers, President Cárdenas said the companies' terms were acceptable.<sup>2</sup> The companies made an inexcusable blunder by demanding that Cárdenas put his acceptance in writing. Unaccustomed to having his word questioned, the President considered the request a slur on his personal honor and a grave reflection on the integrity of his administration.<sup>3</sup>

While the bargaining between the companies, the Syndicate, and the President had been going on, the Federal Board extended the deadline for compliance by a week. On March 15th, the deadline for compliance, the companies bluntly notified the Board that they could not and would not comply.<sup>4</sup>

Hearing of the companies' flat refusal to obey, the chief executive decided to expropriate the whole industry. The defiance of the petroleum producers--coming in the wake of their veiled insults to him and his government--pushed the president into this irreversible decision. He could not back down and retain the respect of his countrymen. Consequently, Cárdenas issued the expropriation decree on March 18, 1938.<sup>5</sup> On the morning of March 19, 1938, the expropriation decrees were issued to the oil companies to the

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<sup>1</sup>Townsend, op. cit., p. 251.

<sup>2</sup>Cline, op. cit., p. 236.

<sup>3</sup>Ibid.

<sup>4</sup>Ibid.

<sup>5</sup>Ibid., pp. 237-38.



extent necessary in the judgment of the Minister of National Economy for the discovery, production, conveyance, storage, and distribution of the petroleum industry. The decrees stated that the Minister of Finance would pay indemnity in accordance with the provisions of Article 27 of the Constitution and Articles 10 and 20 of the Law of Expropriation. The indemnity was to be paid in cash within a period not to exceed ten years. Expropriation was declared to be effective immediately.<sup>1</sup>

In a conversation with Francisco Castillo Nájera, Mexican Ambassador to Washington, on March 21st, Undersecretary of State Sumner Welles suggested that President Cárdenas should rescind the expropriation decree. Nájera doubted that it was possible for the President to take such action since a great deal of public agitation had been aroused in support of the action of the President. He, nevertheless, emphasized his determination to do everything possible to bring about such solution.<sup>2</sup>

In Mexico, American Ambassador Josephus Daniels called upon President Cárdenas on March 22nd. During this visit, Daniels stressed the surprise and concern of Secretary Hull over the actions which the President had taken in respect to American petroleum interests in Mexico. Cárdenas expressed his appreciation for the friendly attitude of the republic to the north and mentioned his concern over the possible effect of the oil controversy on the country's friendship with democratic nations. The Mexican President indicated his government's intention to offer compensation through allotments to the companies of a share in oil production which share would ultimately be credited in the final settlement. At the same time, a discussion of the value

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<sup>1</sup>Daniels to Hull, March 19, 1938, Foreign Relations, V, 725-26.

<sup>2</sup>Memorandum of Conversation by Welles, March 21, 1938, ibid., p. 733.

of the expropriated properties could take place concurrently.<sup>1</sup>

Despite the conciliatory attitude of President Cárdenas, the State Department ultimately persuaded the Treasury Department to boycott Mexican silver. Because of a financial crisis in Mexico, Henry Morgenthau, Secretary of the Treasury, had entered into an agreement with Mexico on December 29, 1937 to purchase 35,000,000 ounces of Mexican silver and to continue the regular monthly purchases. The Treasury agreement came after conferences in Washington which had begun in mid-December. A delay was caused by a collision of the State Department's negotiations on the oil and land issues with the Treasury Department's conversations on silver and the immediate support of a struggling neighbor. By December, 1937, the emphasis of the State Department was on a general settlement of the whole Mexican situation in which concessions should be made first by the Mexicans before financial aid was extended to them. At first Morgenthau was inclined to agree with the State Department.<sup>2</sup>

Morgenthau, on reflection, decided that the democratic regime in Mexico needed help. He urged President Roosevelt to persuade the State Department to let the Treasury Department proceed independently. He told the President on December 15, 1937:

We're going to wake up and find inside a year that Italy, Germany, and Japan have taken over Mexico... It's the richest--the greatest store of natural resources close to the ocean of any country in the world . . . . They've got everything that those three countries need.<sup>3</sup>

But as the days passed, President Roosevelt reported to Morgenthau no change

<sup>1</sup>Daniels to Hull, March 22, 1938, ibid., pp. 733-34.

<sup>2</sup>Allen Seymour Everest, Morgenthau: The New Deal and Silver (New York, 1950), pp. 84-87.

<sup>3</sup>John Morton Blum, From the Morgenthau Diaries (Boston, 1959), p. 494.

of policy. Pressed by Morgenthau, Welles consented to help the Mexicans in their financial crisis and the agreement of December 29, 1937 was made.<sup>1</sup>

On March 24, 1938, Herbert Feis, the State Department's economic adviser, told Morgenthau that the State Department was embarrassed because the Treasury Department was continuing to subsidize the Mexicans by buying their silver every month. Morgenthau stated that from the monetary standpoint he thought that the United States ought to continue to buy Mexican silver. Reluctantly, he agreed to the request of the State Department to boycott Mexican silver although he insisted on a formal request. On March 25, 1938, Feis delivered a statement of policy which constituted a formal request. It read:

In view of the decision of the Government of the United States to re-examine certain of its financial and commercial relationships with Mexico, the Treasury will defer continuation of the monthly silver purchase arrangements with Mexico until further notice.<sup>2</sup>

The silver boycott was only one phase of the State Department's offensive against Mexico following expropriation of American oil properties. On Saturday, March 26, 1938, Hull cabled Daniels the text of a long protest note which was to be delivered not later than noon on the following Monday to the Mexican Minister of Foreign Affairs, Eduardo Hay. Daniels thought that the language of the note was unduly sharp. It read, in part, as follows:

my Government directs me to inquire, in the event that the Mexican Government persist in this expropriation, without my Government undertaking to speak for the American interests involved, but solely for its preliminary information, what specific action with respect to payment for the properties in question is contemplated by the Mexican Government, what assurance will be given that payment will be

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<sup>1</sup>Ibid., pp. 494-96.

<sup>2</sup>Ibid.

made, and when such payment may be expected. In as much as the American citizens involved have already been deprived of their properties . . . my Government considers itself entitled to ask for a prompt reply to this inquiry.<sup>1</sup>

On the same day, Daniels received instruction from Hull to return to Washington for the purpose of consultation immediately after presenting the protest note to Foreign Minister Hay.<sup>2</sup> The outlines of the strategy of the State Department were clear: A stiff diplomatic protest, followed by a silver boycott and the withdrawal of the American Ambassador. If these moves did not cause Cárdenas to return the oil properties, they would at least be a warning to other Latin American Governments.<sup>3</sup>

Daniels presented the American protest note to Foreign Minister Hay at the Foreign Office on Sunday afternoon, March 27, 1938. While Daniels was in full accord with Secretary Hull's insistence upon payment for properties expropriated, he did not believe that a resort to note-writing would achieve the results sought, particularly since both Hay and President Cárdenas had given their word orally to do what Hull asked in his note. Seeing that the two countries might be in for a long and inconclusive period of note writing, Daniels said to the Foreign Minister: "Since the President has promised payment for property expropriated, it may be as well to consider the note as 'not received' and I will convey again to my government the promise to pay."<sup>4</sup> When Daniels reported his conversation with the Foreign Minister to Hull, he said that his note would, therefore, not be given to the press. Furthermore, he agreed not to make public the note at that time and not at

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<sup>1</sup>Daniels, op. cit., p. 234.

<sup>2</sup>Hull to Daniels, March 26, 1938, Foreign Relations, V, 733.

<sup>3</sup>Cronon, op. cit., p. 193.

<sup>4</sup>Daniels, op. cit., p. 235.

all if satisfactory arrangements were made.<sup>1</sup>

In July, President Cárdenas told a reporter for the New York Times that the United States had not presented any formal notes or demands, only informal questions concerning the oil expropriation. When Hull learned of this, he instructed Daniels to inform the Department as soon as possible whether he had obtained or could obtain confirmation of the report.<sup>2</sup> In a later communication, Hull directed Daniels to inform the Minister for Foreign Affairs that

this Government has always considered, and will continue to consider the note [of March 27] as regularly delivered and valid in every respect. You may inform General Hay that in view of a misunderstanding that has arisen an endeavor will be made, in responding to press inquiry, not to mention this particular communication but that my position in this matter will have to be reconsidered if the Mexican Government or persons closely connected therewith continue to deny publicly that a note was delivered on March 27.<sup>3</sup>

Relative to the protest note of March 27, Daniels successfully sabotaged the State Department's plan for a stern public rebuke of Mexico. His action in the matter was clearly insubordinate. Yet, in Daniels defense, it should be noted that he was convinced that the Department was not sufficiently aware that its course would very likely lead to an open break with Mexico and the United States--a break that might destroy five years of good neighbor diplomacy. No one can tell what might have been the result if Daniels had not blunted the force of the State Department's protest. Ramón Beteta, Mexico's Undersecretary for Foreign Affairs, believed that Daniels almost single handedly prevented a break between the United States and Mexico at that

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<sup>1</sup>Ibid., p. 237.

<sup>2</sup>Hull to Daniels, July 20, 1938, Foreign Relations, V, 755-56.

<sup>3</sup>Hull to Daniels, July 21, 1938, ibid., p. 757.

time. He suggested that both countries owe a heavy debt to the Ambassador's willingness to jeopardize his career in the furtherance of the Good Neighbor policy.<sup>1</sup>

Despite the silver boycott and protest note of March 27th, the United States admitted from the beginning Mexico's right to expropriate the American oil properties provided immediate and adequate compensation was made. This position was made clear in a press statement by Secretary of State Hull:

This Government has not undertaken and does not undertake to question the right of the Government of Mexico in the exercise of its sovereign power to expropriate properties within its jurisdiction. This Government has, however, on numerous occasions and in the most friendly manner pointed out to the Government of Mexico that in accordance with every principle of international law, of comity between nations and of equity, the properties of its nationals so expropriated are required to be paid for by compensation representing fair, assured and effective value to the nationals from whom these properties were taken.<sup>2</sup>

On March 31st, Daniels received a letter from President Cárdenas in which he expressed his government's appreciation for the understanding attitude adopted by the United States in the oil crisis:

Today my country is happy to celebrate, without reservations, the proof of friendship which it has received from yours and which will be carried in the hearts of its people.

Mexico has always wished to maintain its prestige, carrying out its obligations, but elements which did not understand Mexico placed obstacles in the way of this high and noble purpose. Today a new dawn breaks on its future with the opening to it of doors of opportunity. You may be sure, Mr. Ambassador, that Mexico will know how to honor its obligations of today and its obligations of yesterday.<sup>3</sup>

On receiving Cárdenas' letter, Hull pointed out that he was "gratified by the expressions of friendship, esteem, and confidence on the part of the

<sup>1</sup>Cronon, op. cit., p. 198.

<sup>2</sup>Statement for the Press by Hull, March 30, 1938, Foreign Relations, V, 662.

<sup>3</sup>Cárdenas to Daniels, March 31, 1938, Documents, I, 123.

Mexican Government and people. . . ." As for Mexico's determination to honor its obligations, Hull stated his sincere belief that "under these, conditions a rapid, satisfactory, and equitable solution of the pending problems between the two countries can be found."<sup>1</sup>

During the hectic days immediately following Mexico's seizure of American oil properties, President Roosevelt was vacationing at Warm Springs, Georgia, where he was content to remain aloof from the policy arguments going on in Washington. In a press conference with a New York Times reporter on April 1st, he was asked to comment on the situation created by the expropriation of American owned properties in Mexico. The President stated that "the discussions between the two governments on the matter seemed to be coming along satisfactorily," and he indicated that the oil interests must limit their claims to the amount of their actual investments, less depreciation, because claims based on prospective profits would not be supported.<sup>2</sup>

Following the Presidential interview, the Mexican Congress wrote a letter of thanks to him stating that

world democracy has found in our President Cárdenas and yourself its two most vigorous representatives. Those comprising this chamber set a historic precedent in clasping your hand, and, in the name of the people of our own country, that of the American people, which now joins the rest of the continent in interpreting laws which will achieve happiness for all peoples by the deepest sentiment of social justice.

Upon receiving the letter from the Mexican Congress, Roosevelt responded in a manner in keeping with his Good Neighbor policy:

It is with sincere appreciation that I have received your eloquent

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<sup>1</sup>Statement of Secretary of State Hull, April 1, 1938, ibid., p. 124.

<sup>2</sup>New York Times, April 2, 1938, p. 1.

<sup>3</sup>Deputy Leon García of the Mexican Congress to President Roosevelt, April 18, 1938, Documents, I, 124-25.

message on behalf of the Thirty-Seventh Congress of Mexico, uniting with me in expressing the common aspirations of the peoples of the New World for justice and peace, and our common determination to solve our problems in a spirit of friendly cooperation. It is our responsibility mutually to apply these principles of fairness and equity to the task confronting us, and I am confident that thereby those tasks will be brought to a satisfactory conclusion responsive alike to the desires and interests of our respective citizens.<sup>1</sup>

This optimism was hardly shared by the State Department. The Department's first reaction to the expropriation (a strong diplomatic protest and a silver boycott) brought no important results. President Cárdenas clearly had indicated no intention of backing down in the face of rebukes from the diplomats. If Cárdenas could not be persuaded to return the oil properties, the next logical step would be to make sure that he paid for them.<sup>2</sup>

While Washington recognized Mexico's sovereign right to expropriate the property of American citizens--provided she paid prompt, adequate, and effective compensation--the oil companies were not interested in any settlement that left control of the industry in the hands of the Mexican Government. On April 4, 1938, the Mexican Finance Minister, Eduardo Suárez, told Daniels that the oil companies very definitely were unwilling to discuss compensation until after the outcome of their amparo proceedings against expropriation. The request for a court order against expropriation had been filed that very day with the Mexican District Court.<sup>3</sup> The unwillingness of the companies to discuss a settlement complicated the State Department's position in the dispute. Since the government had already recognized Mexico's right to expropriate, it could legitimately take issue only with the amount

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<sup>1</sup>Roosevelt to García, n. d. , ibid., p. 125.

<sup>2</sup>Cronon, op. cit., p. 203.

<sup>3</sup>Daniels to Hull, April 4, 1938, Foreign Relations, V, 746.



and method of compensation which Mexico might offer.<sup>1</sup>

On May 9th, Sumner Welles told Ambassador Nájera that the Department would be glad to transmit any Mexican offer to the companies. Since no negotiations were in progress at the time between the Government of Mexico and the American interests, the Department was willing, without waiving any legal rights of the companies, to receive any concrete proposal advanced by the Mexican Government which would indicate the precise manner in which the Government of Mexico proposed to make effective and adequate compensation to the oil companies.<sup>2</sup>

A few days later, President Cárdenas offered to negotiate a long-term agreement allowing the companies to export 60 per cent of Mexico's oil output. From this the companies might take whatever was necessary over the next ten years to recover the value of their expropriated properties. Cárdenas insisted firmly, however, that he would never permit the companies to regain control over production. Daniels, who had recently returned to the United States for belated conferences, thought the offer should be explored. He urged Secretary Hull to win the cooperation of the American interests.<sup>3</sup>

This proved to be a difficult task. On May 31st, Hull and other high Department officials conferred with officers of Standard Oil of New Jersey, the largest of the American firms affected by the Mexican seizure. William S. Farish, president of Jersey's Standard, in his statement made it plain that the Mexican offer was unacceptable:

The company attaches importance to the expropriation of its properties

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<sup>1</sup>Cronon, op. cit., p. 205

<sup>2</sup>Welles to Nájera, May 9, 1938, Foreign Relations, V, 664-65.

<sup>3</sup>Cronon, op. cit., pp. 206-07.

in Mexico not because of the purely Mexican aspect of the matter but because of its effect on other countries. Therefore, in considering any proposal advanced for compensation by the Mexican Government, the company must view it from the standpoint of its other foreign investments. If the company accepts some arrangement which in effect is based upon some compromise of the principles of international law, the company then considers that it is lost since a precedent will have been established. Other countries will follow suit and the company will not be able in these cases to stand on the ground that if its properties are expropriated they should be paid for at the time of taking in cash.<sup>1</sup>

When Hull inquired what would be the company's attitude should the Mexican Government make a more reasonable offer, Farish asked in reply whether that would give protection to other Standard Oil companies abroad. Hull suggested that there were two alternatives open to the companies. They could either negotiate some agreement with the Mexican Government, or let matters drift in the hope that it might be possible to win a more favorable settlement in the future. Farish then stated that it was his own tentative opinion that the company would prefer to let things go than to accept a proposal which compromised the doctrine of compensation.<sup>2</sup>

A type of watchful waiting became the companies' strategy for the next three-and-a-half years. They were convinced that they could accept nothing less than immediate compensation for their properties, including subsoil rights, without jeopardizing their positions in other countries. They were certain, too, that the Mexicans could not successfully operate the oil industry alone. In any event, they were determined to deal firmly with Mexico so that no other country would be tempted to follow her lead.<sup>3</sup>

Despite the lack of willingness on the part of the companies to

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<sup>1</sup>Memorandum of Conversation by Duggan, Chief of the Division of American Republics, May 31, 1938, Foreign Relations, V, 754.

<sup>2</sup>Ibid., p. 755.

<sup>3</sup>Cronon, op. cit., p. 212.

negotiate a settlement, the Mexican President made it known in October, 1938 that he was eager to settle the oil dispute through direct negotiations with the oil companies. Mexico did not regard the oil expropriation as a matter for diplomatic intervention. The position of Cárdenas was that since the oil properties were taken over under provisions in the Mexican Constitution which he was bound to enforce, any discussion or negotiation on the matter had to be done under Mexican law. The Mexican President expected the representatives of the oil companies to come to the Mexican Government and deal directly with it. Since the oil companies had not initiated any negotiations with the Mexican Government, President Cárdenas urged them to do so.<sup>1</sup>

The oil companies admitted that they were in no hurry to discuss a settlement until after the 1940 election on both sides of the Rio Grande. The administration in power in Washington was committed to fostering inter-American solidarity through its Good Neighbor policy. Consequently, its freedom of action in dealing with Mexico was considerably limited. On the one hand, President Cárdenas made it plain that he had no intentions of returning the oil properties or making immediate cash compensation; and on the other, the oil men were thoroughly convinced that, if Mexico got away with the expropriation, there would be no safety for their holdings in other countries. Their strategy was to sit tight and hope for the day when a chastened or disillusioned Mexican Government would invite them back.<sup>2</sup>

Although the President and State Department refused to adopt a get-

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<sup>1</sup>New York Times, October 23, 1938, p. 1.

<sup>2</sup>Cronon, op. cit., p. 231.

tough policy toward Mexico, there was some sentiment in Congress in favor of one. Speaking in Congress, Senator Styles Bridges of New Hampshire stated that "the Cárdenas government, in March, 1938, expropriated the oil properties of American, British and Netherland citizens. Strangely enough, . . . this action caused no general indignation . . . ." <sup>1</sup> Representative Hamilton Fish of New York told the House:

I propose to have something to say about the good-neighbor policy in Mexico. We are reaping the whirlwind of that good-neighbor policy, that soft, supine policy which has worked one way, where we have been the good neighbor and they have taken our shirts and pants, too, and the property of our citizens. . . . and have refused to pay all these years. <sup>2</sup>

While there was this Congressional sentiment in favor of a more forceful policy toward Mexico, the oil companies realized that it would be difficult to justify a continued refusal to discuss an oil settlement with Mexico. This was especially true after Mexico agreed to settle the agrarian claims in November, 1938. This settlement showed that it was possible to deal with the Cárdenas regime. It was also clear that the Roosevelt administration was reluctant to intervene directly in the dispute until the companies had made some kind of effort at a negotiated settlement. President Roosevelt agreed with Daniels that it was incumbent upon the oil men to explore the various Mexican offers of compensation before turning to Washington for help. In June, 1938 President Roosevelt told a Standard Oil attorney that the companies must accept the fact of the expropriation and discuss a financial settlement with Mexico. He repeated his advice six months later,

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<sup>1</sup>U. S. Congressional Record, 76th Cong., 1st Sess., 1939, LXXXIV, Part 10, 10411.

<sup>2</sup>U. S. Congressional Record, 76th Cong., 1st Sess., 1939, LXXXIV, Part 4, 3806.

the Sinclair companies agreed.<sup>1</sup>

In the spring of 1939, Donald Richberg went to Mexico to begin his negotiations with the Mexican Government. The objective of the oil companies was to have their expropriated properties in Mexico restored to their ownership and control. It became evident to Richberg that the Mexican Government could not reverse itself and simply return the properties to the oil companies.<sup>2</sup> This was especially true after the Mexican Supreme Court upheld, in December, 1939, the constitutionality of the Expropriation Law of 1936 and the Expropriation Decree of March 18, 1938.<sup>3</sup> On the other hand, Mexico would not and probably could not pay adequate compensation for the subsoil rights to the vast oil deposits. The companies would not be satisfied with even a fair compensation for merely their machinery and other properties above the surface since the major values of their properties lay in the vast oil deposits which they had discovered and developed. In the face of these irreconcilable positions, the Richberg negotiations ended without producing a settlement.<sup>4</sup>

Throughout the Richberg negotiations, Sinclair's attorney, Patrick Hurley, had been watching from the sidelines, alert to protect his client's interests. He obtained a copy of the record of the conferences between Richberg and the Mexican officials. At one place in the record, President Cárdenas had asked where was Mr. Hurley. Richberg replied that the big oil

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<sup>1</sup>Ibid.

<sup>2</sup>Donald R. Richberg, My Hero: The Indiscreet Memoirs of an Eventful but Unheroic Life (New York, 1954), pp. 248-49.

<sup>3</sup>Daniels to Hull, December 5, 1939, Foreign Relations, V, 712.

<sup>4</sup>Richberg, op. cit., pp. 248-49.

companies had thought it better that Hurley not participate since it would only mean one more opinion to reconcile. Moreover, he suggested, the Sinclair investments in Mexico were insignificant when compared with those of the major companies and that any arrangement agreed upon between Mexico and the major companies would have to be accepted by the Sinclair interests. This action, as far as the Sinclair companies were concerned, meant the end of the united front. Consequently, Hurley returned to Mexico alone with determination to settle the controversy for his clients.<sup>1</sup>

After the failure of direct negotiations between Richberg and the Mexican Government, Hull proposed, on April 3, 1940, that the two governments agree to submit to impartial arbitration all the questions involved in the oil controversy. Hull suggested that the arbitral tribunal be given authority to set both the amount of compensation and the means by which it should be paid.<sup>2</sup>

Mexico made its reply to Hull's arbitration proposal on May 1, 1940. Eduardo Hay, Minister of Foreign Affairs, stressed that Mexico was a firm believer in the principle of arbitration and cited the Mexican record in complying with arbitral decisions. Hay politely reminded the United States that it still had not acquiesced in the Chamizal decision of 1911, a decision favorable to Mexico. Mexico declined to arbitrate the oil dispute on the ground that it was a domestic matter.<sup>3</sup>

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<sup>1</sup>Lohbeck, op. cit., pp. 147-48.

<sup>2</sup>Hull to Nájera, April 3, 1940, Department of State, Bulletin, II (April 9, 1940), 382.

<sup>3</sup>Hay to Daniels, May 1, 1940, Department of State, Bulletin, II (May 4, 1940), 468-69.

Following Mexico's refusal to arbitrate the oil dispute, Hurley reached an agreement between the Sinclair Company and Mexico on May 7, 1940. The agreement provided for payment within three years of an indemnity of \$8,500,000 for the surface properties and a long-term contract for the sale of Mexican oil to Sinclair. The Sinclair settlement put the remaining companies in a particularly weak position. If one company could make a settlement, why not the others?<sup>1</sup>

After the arbitration proposal, the State Department was inclined to let the dispute rest for a while. Welles was noncommittal when Ambassador Nájera proposed, early in June, 1940, that the two governments each appoint a commissioner to evaluate the remaining oil properties and determine the method of compensation. The ambassador said that President Cárdenas was willing to set a brief period for the deliberations and was prepared to let any disagreement be settled by a neutral referee.<sup>2</sup> Welles told Nájera that consideration would be given the proposal.<sup>3</sup>

One reason for the reluctance of the State Department to pursue an oil settlement in June was the fact that Mexico was scheduled to elect a new president on July 7, 1940. Since President Cárdenas was constitutionally ineligible for re-election, there was certain to be a change. For the first time since the Revolution, there was a well-organized and well-financed conservative party in the field, led by General Juan A. Almazán. He made a spirited bid for the anti-government vote. The oil men and most foreign businessmen in Mexico were confident that he would prove much easier to deal

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<sup>1</sup>Richberg, op. cit., pp. 265-66.

<sup>2</sup>Cronon, op. cit., p. 254.

<sup>3</sup>Wood, op. cit., p. 247.

with than the government party's candidate, General Manuel Avila Camacho. Shortly before the election, Almazán threatened to lead a revolt if he were cheated out of what he regarded as certain victory.<sup>1</sup>

The election was marked by violence and intimidation on both sides. The Almazán forces refused to submit their ballots for tabulation. When, as a result, General Camacho was proclaimed the winner, Almazán angrily left the country.<sup>2</sup>

After Avila Camacho had been officially certified as the victor, the United States Government on several occasions went out of its way to demonstrate that Washington did not question his election. The White House announced that Vice President-elect Henry A. Wallace would head the United States delegation at the inauguration of Camacho. This decision was viewed in both countries as proof that the United States accepted the election results and was eager for closer relations with the Camacho Government.<sup>3</sup>

Even before the inauguration of Camacho, Welles approached Nájera with the suggestion that the two governments quietly explore the possibility of a general settlement of all pending claims and disputes. World War II had broken out in Europe and, throughout the first half of 1941, the two countries moved closer toward an understanding on defense matters. The United States quietly contracted to buy Mexico's output of eleven strategic minerals.<sup>4</sup> On April 1, 1941, Welles and Nájera signed an agreement pledging the right of transit and the use of air fields for military aircraft of both

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<sup>1</sup>Cronon, op. cit., p. 255.

<sup>2</sup>Ibid.

<sup>3</sup>Ibid.

<sup>4</sup>Ibid., pp. 258-60.



nations.<sup>1</sup>

By the summer of 1941, the oil dispute was the chief remaining obstacle to a general settlement with Mexico. The United States Government was eager to bring the oil dispute to a close because it hoped that such an accord would open the way to closer cooperation on defense matters and would aid in the promotion of hemispheric solidarity and security. Early in July, Nájera repeated his suggestion that each government appoint an expert to evaluate the oil properties. With this suggestion as a starting point, the two governments were soon able to draw up a tentative oil agreement.<sup>2</sup>

By August, 1941, the United States and the Mexican Governments approved a tentative formula for an oil settlement. Hull held a meeting with American oil company representatives in his office on September 27, 1941, and laid this proposed settlement before them. He sought to bring about its acceptance by outlining to them the world situation and the important role Mexico could play in cooperation with the United States. The Secretary of State stressed the Axis activities which were then being conducted in Latin America and the help which Mexico had already given this country in preventing strategic materials from going to Japan. President Camacho, Hull pointed out, had adopted policies affording a timely opportunity to work out all problems harmoniously.<sup>3</sup>

In response to the proposed settlement, the company representatives

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<sup>1</sup>U. S. Congressional Record, 77th Cong., 1st Sess., 1941, LXXXVII, Part 3, 2987-89.

<sup>2</sup>Cronon, op. cit., p. 263.

<sup>3</sup>Cordell Hull, The Memoirs of Cordell Hull (New York, 1948), II, 1141.

objected, asserting that the United States was sacrificing the principle of property rights. The oil men declared that they would rather see the question remain unsettled, even with the result of losing the property, than to see the principle of property rights sacrificed.<sup>1</sup>

Failing to reach an agreement in September, Hull had further meetings and exchanges of conversation with the oil company heads in October and November without being able to secure their acceptance of the proposed settlement. Knowing what he did about the dangerous status of United States' negotiations with Japan, Hull felt, as did President Roosevelt and Ambassador Daniels, that the United States could wait no longer. On the afternoon of November 19, 1941, Secretary Hull and Ambassador Nájera met at the State Department and signed the long-desired global settlement.<sup>2</sup>

Under the global settlement, agreements were reached on: (1) expropriation of petroleum properties of American nationals, (2) claims, (3) trade, (4) stabilization of the Mexican peso, (5) Mexican silver, and (6) financing of Mexican highway construction.<sup>3</sup>

The agreement on the expropriated American oil properties provided that the two governments appoint an expert to determine the just compensation to be paid the American owners for their properties and rights and interests. If the American and Mexican experts agreed on the amount to be paid, they were to render a joint report to their two Governments within five months. If the experts were unable to reach an agreement, they were to submit a separate report to their respective governments within 30 days. Upon

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<sup>1</sup>Ibid.

<sup>2</sup>Ibid.

<sup>3</sup>Summary of the Agreements, November 19, 1941, Department of State, Bulletin, V (November 22, 1941), 399-403.

receipt of such report, the two governments would seek through diplomatic negotiations to determine the amount of compensation to be paid. At the time of signing, the Mexican Government made a cash deposit of \$9,000,000 on account as compensation to be paid the affected American companies and interests.<sup>1</sup>

By the claims convention, the Mexican Government agreed to pay the United States the sum of \$40,000,000 in full settlement of other outstanding property claims, including the hitherto unsettled so-called General Claims and the agrarian claims (on which \$3,000,000 had been paid to date on those arising between August 30, 1927 and October 7, 1940). Mexico agreed to make a payment of \$3,000,000 at the time of exchange of ratifications of the convention. The balance remaining due to the United States amounted to \$34,000,000 after the \$3,000,000 payment when ratifications were exchanged, and it was to be liquidated over a period of more than a decade through the annual payment by Mexico of \$2,500,000, beginning in 1942.<sup>2</sup>

Other aspects of the comprehensive settlement were designed to promote Mexican-American harmony and cooperation. As the two governments decided in principle to negotiate a reciprocal-trade agreement, the Treasury Department entered into an agreement for monetary and financial cooperation with the Mexican Government and the Bank of Mexico which provided for the purchase of Mexican pesos with United States dollars. This would be to the mutual benefit and advantage of the two countries, since United States dollars thus acquired by the Mexican authorities would greatly assist them in stabilizing the exchange value of the peso in terms of the dollar. The Treasury

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<sup>1</sup>Ibid.

<sup>2</sup>Ibid.

Department also indicated its willingness to purchase newly mined Mexican silver directly from the Mexican Government on a basis similar to that under which such purchases were made prior to 1938. Finally, the Export-Import Bank agreed to accept certain highway bonds of the Mexican Government as security for credit. This was done as a means of expediting Mexico's highway construction program. The Mexican highway system is a most important part of the Inter-American Highway.<sup>1</sup>

The signing of the comprehensive agreements by the two countries marked a milestone of great importance in United States-Mexican relations. Ambassador Daniels considered November 19, 1941 significant enough in the relations of the two countries to write that it "might go down in the annals of Mexico and the United States as the Day of Deliverance."<sup>2</sup> Henry Morgenthau, United States Secretary of the Treasury, and Eduardo Suárez, Mexican Finance Minister, saw the agreements as "practical evidence of the Good Neighbor Policy."<sup>3</sup> Secretary of State Cordell Hull adequately expressed the importance of the agreements in his press statement on November 19th:

The agreements which the United States and Mexico have reached today are of outstanding importance in the relations between the two countries. Not only do they concern most of the principal mutual problems which have long been pending between the two sister republics but they mark a new milestone of great importance in the cause of increasingly closer collaboration and solidarity between the countries of the New World. These agreements constitute a further concrete proof of the fact that problems existing between nations are capable of mutually satisfactory settlement when approached in a reciprocal spirit of good will, tolerance, and a desire to understand each other's point of view.<sup>4</sup>

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<sup>1</sup>Ibid.

<sup>2</sup>Daniels, op. cit., p. 266.

<sup>3</sup>Joint Statements by Morgenthau and Suárez, November 19, 1941, Documents, IV, 360.

<sup>4</sup>Statement by Hull, November 19, 1941, ibid., p. 357.

## CONCLUSION

The Mexican Revolution of 1910, launched under the leadership of Francisco I. Madero, had as its immediate objective the restoration of constitutional liberties which had been suppressed during the long regime of Porfirio Díaz. As the Revolution advanced, the underlying movement of the rural folk gradually submerged all else and subordinated all other issues to the basic one of land for the people. The aims of the Revolution shifted to emphasis on the effort to improve the lot of the peasants and workers in Mexico. A prerequisite for such improvement was Mexican recovery of the control of the important elements of Mexico's resources which had passed into the possession of foreigners.

In attempting to achieve the aims of the Revolution, the leaders of Mexico created a by-product of problems and issues that were to plague United States-Mexican relations. The most outstanding of these issues during the period from 1933 to 1941 were those growing out of the general and special claims and the expropriation of American land and oil properties.

While seeking to bring about a solution to these problems, President Franklin D. Roosevelt and Secretary of State Cordell Hull had to back up their Good Neighbor policy in their dealings with Mexico. They knew that it was still on probation among the Latin American countries. Strong and adverse action against Mexico might have led to a complete break in the United States-Mexican diplomatic relations. At the same time, it would have

possibly alienated forever the growing but shaky Latin American trust in the United States. By the adoption of the Good Neighbor policy, the United States gave up the practice of forceful intervention in order to protect American properties in Latin America. Consequently, diplomatic persuasion was about its only remaining weapon.

The claims controversy gave the United States an opportunity to apply the Good Neighbor policy in its dealings with Mexico. One result of the Bucareli Conference of 1923 was the establishment of two claims commissions of mixed membership. As late as 1923, the two claims commissions had made little progress toward a settlement of the claims issue. However, with the skillful application of the Good Neighbor policy by Josephus Daniels, United States Ambassador to Mexico, the two countries were able to reach an agreement on both the general and special claims problem in April, 1934.

Within the same year that the claims agreement was reached, the Mexican Government, under the presidency of Lázaro Cárdenas, accelerated the program of expropriating the land holdings of American citizens in Mexico. This program had as its purpose the improvement of the conditions of peasants in Mexico. From the start of the land-reform program, the United States consistently held that, while Mexico had the right to expropriate private property, no American-owned land should be taken unless prompt, adequate, and effective compensation was made. The United States had a particular desire to safeguard friendship with Mexico not only because Mexico is one of its nearest neighbors but also because of the many ways in which good and friendly relations between the two countries could be complementary and mutually beneficial. In view of this fact, friendly negotiations, in keeping with the Good Neighbor policy, culminated in a settlement of the agrarian claims in November, 1938.

The land expropriation controversy was mild in comparison with the one which grew out of Mexico's expropriation of American oil properties in Mexico. When expropriation was decreed on March 18, 1938, it was the climax of a labor dispute between the petroleum labor union and seventeen oil companies. The companies refused to accept the award of the Mexican Federal Board of Arbitration and Conciliation which was confirmed by the Mexican Supreme Court.

The first reaction of the State Department to expropriation was a silver boycott and a diplomatic protest which was toned down by Ambassador Daniels. While this action failed to make President Cardenas rescind his Expropriation Decree of March 18th, it was at least a warning to other Latin American governments. From the start, as in the case of the agrarian expropriations, the United States recognized Mexico's right to expropriate the oil properties of American citizens provided she compensated promptly. Having recognized Mexico's right to expropriate, the Government of the United States could legitimately take issue only with the amount and method of compensation which Mexico might offer.

While President Cárdenas made it plain that he had no intention of returning the oil properties or making immediate cash compensation, he stressed the fact that he was eager to reach a settlement of the oil dispute through direct negotiations with the oil companies. Mexico did not consider the oil expropriation as a matter for diplomatic intervention. The position of Cárdenas was that the oil properties were taken under provisions of the Mexican Constitution which he was bound to enforce and that any discussion or negotiation of the matter had to be under Mexican law.

The American oil companies, especially the major ones, were not interested in any settlement that left control of the industry in the hands of

the Mexican Government. They were convinced that they could accept nothing less than immediate compensation for their properties, including subsoil rights, without jeopardizing their positions in other countries.

President Roosevelt agreed with Daniels that it was incumbent upon the oil men to explore the various Mexican offers of compensation before turning to Washington for help. In June, 1938, Roosevelt told a Standard Oil attorney that the companies must accept the fact of expropriation and discuss a formal settlement with Mexico. The President repeated his advice six months later, warning that he would not enter the controversy until the oil men had first tried to get an acceptable agreement. Roosevelt thought that a fair settlement should be based on the companies' actual investments in Mexico not their estimates of potential profits.

After the failure of the companies to reach a settlement through their representative Donald Richberg, the State Department began negotiations looking toward a general settlement of all pending claims and disputes. The United States Government was eager to bring the oil dispute to a close because it hoped that such an accord would open the way to closer cooperation on defense matters and would aid in the promotion of hemispheric solidarity and security. By August, 1941, the two governments had reached a tentative formula for an oil settlement, as well as agreements on other matters. Hull sought to get the companies to accept the tentative formula but was unsuccessful. Knowing the world situation in 1941 and realizing the important role Mexico could play in cooperation with the United States in defense matters, Hull felt, as did President Roosevelt and Ambassador Daniels, that the United States could wait no longer on the companies to accept the proposed oil agreement. Therefore, he and the Mexican Ambassador Nájera signed the global settlement on November 19, 1941.



By applying the Good Neighbor doctrine in its relations with Mexico, the United States and Mexico were able to exchange notes outlining a comprehensive settlement of claims and disputes which had been pending for some time. The general agreement marked a milestone of great importance in the cause of closer collaboration and solidarity between the two nations as well as with the other countries of the New World. They, moreover, constituted concrete proof that problems which exist between nations are capable of mutually satisfactory settlement when approached in the spirit and manner that characterized the Good Neighbor policy of the United States. Thus by the end of 1941, Mexican-American harmony had been achieved.

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